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OF
INCORPORATED ACCOUNTANTS

(Established 1889)

AUGUST, 1939



INCORPORATED ACCOUNTANTS' HALL,
VICTORIA EMBANKMENT, LONDON, W.C.2.

The Society of Incorporated Accountants and Auditors (A.D. 1885).

EXAMINATIONS.

FINAL EXAMINATION will be held on **October 31st, November 1st & 2nd, 1939**, in the following subjects:—Advanced Accounting, including Accounts of Partners and Executors and Income Tax; Auditing and the General Duties of Professional Accountants including Income Tax; Costing Accounts; Statistical Methods; General Knowledge in regard to Commerce and Finance; the Law relating to Joint Stock Companies and Bankruptcy; Mercantile Law, including Partnership Law; the Powers and Duties of Liquidators, Trustees, Executors and Receivers; and Economics.

INTERMEDIATE EXAMINATION will be held on **November 1st and 2nd, 1939**, in the following subjects:—Book-keeping and Accounts, including Income Tax; Book-keeping and Accounts, including Partnership and Executorship Accounts; General Commercial Knowledge; Cost Accounts; Commercial Law; the Powers and Duties of Liquidators, Trustees, Executors and Receivers.

PRELIMINARY EXAMINATION will be held on **October 30th and 31st, 1939**, in the following subjects:—ENGLISH, comprising: (a) One Paper on General Knowledge, including the main outlines of Modern English History from Norman Period to the present time, and General Geography; (b) An Essay; (c) General Questions testing knowledge and command of English and English Literature. ONE FOREIGN LANGUAGE, comprising: French, German, Spanish, or Latin (to be selected by the Candidate). MATHEMATICS comprising Arithmetic, Algebra, and Geometry. (Candidates wishing to be examined in Spanish must give six weeks' notice to the Secretary.)

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BELFAST, CAPE TOWN, JOHANNESBURG and DURBAN.**

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The last date for receiving applications is September 28th, 1939.

Incorporated Accountants' Hall,
Victoria Embankment, London, W.C.2.

A. A. GARRETT,
Secretary

NOTE:—Complete sets of past Examination Papers may be obtained of the Secretary, price 1s. per set.

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ACCOUNTANCY

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PROFESSIONAL NOTES

Borrowing £500 Million

The increasing cost of defence has brought a string of extremely heavy supplementary estimates of expenditure, followed by Sir John Simon's announcement that our total defence bill will now amount to the enormous sum of £730 million, or £150 million more than was envisaged as recently as Budget Day. Of this amount only £230 million will come out of revenue, while Sir John Simon thought he might raise possibly £150 million of the remainder in Treasury bills, leaving a further £350 million to be found on longer-term loans. The mild depression of gilt-edged which has occurred is scarcely an adequate reaction to figures such as these, which even a few months ago would have been found staggering. The City, for reasons which are readily understood, is still obsessed by depression psychology and assumes that enormous slack remains everywhere to be taken up by expansion. In particular, it is argued that as bank

deposits are lower than they were a year ago, further credit expansion would be simply "reflation." This quite overlooks that the contraction represents a loss of largely stagnant foreign deposits which have already been replaced to a considerable extent, thanks to the heavy deficit spending, by additional domestic deposits. An indication of the expansion in the domestic circulation of money is to be found in the unseasonal rise in the note circulation during June and early July, which means that the circulation at the August Bank Holiday week-end must exceed all previous records by a substantial margin.

In any case, the true measure of the extent to which borrowing may safely be carried is to be found not in the monetary situation as such but in the existence of unemployed resources. Once the economic system is working at full pressure,

further credit expansion (which includes all forms of borrowing through the banking system) must inevitably set up inflationary trends. If unemployment continues to fall at the rate of recent months (and as the fall has been due entirely to arms spending there is no reason why it should not) a very few months will be sufficient in the opinion of most observers to bring us up against a point of effective full employment. To avoid inflation it will then be necessary to increase taxation or borrow only out of existing savings. If in turn a sharp rise in the rate of interest is to be averted, this implies a strict rationing of the demand for capital from all other borrowers. Unfortunately, recent experience does not raise great hopes that these difficult problems will be handled with outstanding success.

Sickness Benefits and Income Tax

During the past month there appeared in certain newspapers large headlines reading "Income Tax Shock—Sick Pay Liable" and "Income Tax on Benefits for Sickness." These headlines were followed by definite statements that persons who received sickness or disablement benefit from approved and friendly societies, trade unions and other bodies were liable to pay income tax thereon. The statement was based on a decision of the Special Commissioners, and it is not surprising that the report engendered a certain amount of heated argument in Parliament and elsewhere. The Chancellor of the Exchequer, however, made it clear that the case in question was of an exceptional character and related to an individual with a not inconsiderable private income which was supplemented by substantial payments derived from an insurance company and a friendly society, such payments being in the nature of annuities. Sir John Simon stated, further, that there was no intention of altering existing procedure, and that the case in question had no application to the ordinary case where benefits were received from trade unions or friendly societies. The decision of the Special Commissioners is, we understand, under appeal to the High Court and further comment must await the result. Supplementary questions in the House of Commons elicited the interesting fact that benefits under the National Health Insurance Acts are not regarded as constituting income and consequently as attracting income tax. There is no expressed definition of "income" in the Acts, but this view has always been maintained in administration. It is a matter of some regret that the daily press should unnecessarily alarm large sections of the public, but at the same time it must be said the "practice" and "procedure" of the Inland Revenue Department have to cover such a variety of circumstances that even experts in taxation law cannot always define the exact implications of a particular decision.

Audit of Solicitors' Accounts

When it is remembered that the number of solicitors in practice exceeds 17,000, it will be appreciated that the "black sheep" are a very small proportion, but it is inevitable that one black sheep who comes before the Courts should attract more notice than "ninety and nine just persons," whose doings never receive publicity and whose probity is taken as a matter of course by their clients. The general public has, therefore, taken a keener interest in recent deliberations of the Law Society Council aimed at the prevention of default and the compensation of victims than is usually taken in the affairs of a professional organisation. Accountants will be less prone than the public to magnify the extent of solicitors' default, but no less interested in the proposals which the Law Society is putting forward. These proposals comprise, first, a compulsory annual audit of solicitors' accounts and, second, the setting up of a fund to compensate the sufferers from default.

The Act of 1933 required practising solicitors to keep separate banking accounts for moneys held on behalf of clients and not to mix them with their own moneys. Further, it gave the Law Society power to take action when the provisions were not complied with. Unfortunately, however, it provided no machinery by which the Council of the Law Society could make itself acquainted with the facts until too late. It is recognised that even an annual audit, without disclosure, will not solve the difficulty. In small cases sheer ignorance of the accounting position, due to inefficiency of bookkeeping or to its falling into arrears in time of pressure, may often have led to the beginning of trouble, and in such cases an annual audit might be adequate. But in the larger and more important cases an audit by itself would be insufficient. Most firms of any size already have an audit, but the auditor's duty is to report to his client, who is the solicitor, and any action thereon is within the discretion of the solicitor himself. In a recent important prosecution there was no lack of information in the mind of the solicitor as to the state of affairs.

The Bill now before the House of Lords requires every solicitor when applying each year for his practising certificate to make a declaration that he has complied with the rules, and provides also that any false statement would make him liable to disciplinary proceedings. But it is not thought that this proposal would be very effective, for a person already liable to criminal proceedings, or in danger of them, would not be likely to hesitate because of the risk of disciplinary action. Moreover, a man is committed by the acts or defaults of his partners,

of which he may be in ignorance. The proposal of the Law Society that the reports of qualified accountants should be transmitted to the Council should, therefore, meet with general approval. There is a quite understandable objection on the part of responsible firms to the disclosure of information which might be regarded as private and confidential, such as, for example, might be disclosed if accounts or balance sheets were required, but a form of report can be drafted which would give all necessary information to the Law Society and to which no exception could be taken. It might take some such form as the following :—

" I have examined the accounts of A.B., solicitor, for the year ended . . . and have received all the information and explanations I have required. In my opinion the books of the practice have been properly kept so as to comply with the provisions of the Solicitors' Accounts Rules, 1935, and the amount in the clients' banking account (or accounts) at the date of the balance sheet is equal to the aggregate sum shown by the books as standing to the credit of clients at that date."

Such a report would be supplied by the auditor quite separately from the balance sheet of the practice and would cover the essential matters in regard to which confirmation is desirable.

The Public Trustee Office

A decade ago the Public Trustee accepted the office of ordinary trustee in 15,225 cases during the year and the office of executor and administrator in 9,367 cases. In the year ending March 31, 1939, the corresponding figures were 19,463 and 13,752 respectively—a sufficient index of the greater use being made of the facilities of this Government Department, which costs approximately £300,000 a year to run and receives a slightly larger income annually by way of fees. The value of funds under administration on March 31, 1939, was approximately £289.4 million, of which £234.1 million represented the nominal value of stocks held. The average value of trusteeships accepted during the year declined from £13,216 to £8,858, but the average value of new executorships rose from £18,119 to £19,576. Of the new cases, taken all together, 58 per cent. were less than £5,000 in value.

Insuring Against War Risks

At long last, growing dissatisfaction at the inadequacy of the Government's plans for compensating property-owners for war damage has produced some official reaction. A small committee is now to be set up to report upon the practicability of insuring property against the war peril. It is as well to emphasise that there is some danger in the growing opinion in favour of a pre-war levy on property-owners for the provision of an indemnity fund, if it is meant to imply that such a fund alone is sufficient. Any

amounts which it is practicable to raise, even in the course of the next few years, are likely to be far too small in the face of possible liabilities. It is fairly clear that if war risks insurance is to become an accomplished fact, post-war levies on the general body of property-owners—possibly extending over a quite lengthy period of years and supplemented out of taxation—would be necessary, whether pre-war contributions were exacted or not. The details of any scheme would need extremely careful draftsmanship. We have previously expressed the view that more adequate war risks cover for property than is at present provided for is an urgent necessity, and we welcome the readiness of the Government to seek a solution of what is a very difficult problem, involving no less than £10,000 million worth of real property, to take the surprisingly high figure given by the President of the Board of Trade in the debate on the War Risks Insurance Bill.

That Bill, despite its comprehensive title, does not deal at all with the insurance of real property against war risks. It applies only to marine insurance, and the insurance of stocks of goods. The provisions affecting goods, in particular, should be noted by accountants. If the owner of goods which are held for sale, or which are for making up into such goods, wishes to have them insured against war risks, he must register them before the occurrence of hostilities. Registration is effected through the usual fire insurance agents and companies on payment of a nominal registration fee, ranging from £1 for £10,000 of goods to £10 for goods worth more than £250,000. If this country is engaged in hostilities, registered goods are automatically held covered against war risks, a premium, the amount of which is not previously fixed, becoming payable by the owner. No premium is payable before hostilities, but unless registration has been effected in advance it might be some time after hostilities before insurance cover could be granted. Thus it is incumbent on the owner of stocks of goods to register forthwith. Power is reserved under the Bill to make war risks insurance of goods compulsory in war-time, either for all or for a limited range of commodities. Premiums under a compulsory scheme would vary for different goods and different situations, but would be uniform under a voluntary scheme, though periodically they could be moved upwards or downwards as a whole. The insurance companies will be remunerated for their services as agents of the Government, but it should be emphasised that they will be in no way responsible for the payment of indemnities, the risk being covered by the State alone. It is to be hoped that the committee to investigate the war risks insurance of property will be able to recommend as satisfactory a scheme as that which we now have for the insurance of goods.

Depreciation of Fixed Assets

One View—

By FREDERICK A. ROBERTS, Incorporated Accountant

"In the absence of contrary provision, it is not legally necessary for a company to provide for depreciation on its fixed assets." So often does this statement appear both in leading text-books and as a model answer to examination and tutorial test questions that it is firmly impressed on the minds of all accountants. I therefore emphasize, lest I may be thought pretentious, that my views are expressed without dogmatism and in the hope that they may at least invite interest, if not support.

My first consideration is: does the statement correctly summarise the case-law? In proceeding to the answer, it is necessary to note that in all the relevant issues which have been before the Courts the judges have required to be satisfied, above all else, that no part of the monies put up by shareholders for share capital has been repaid to them in the form of dividend. In the course of this main consideration the Courts have decided that though a company may have lost assets—whether by depreciation or otherwise—which were purchased with, or which represent, the share monies, nevertheless profits earned may be distributed, subject to any contractual restriction. Again, while the judges have always refrained from attempting to give a definition of the word "profit," they have held that because floating capital represents the profit such capital must be kept up, since otherwise any shrinkage will form part of the profit.

It should next be noticed that in the dicta of the several well-known cases the terms used are fixed *capital* and floating *capital*—not fixed *assets* and floating *assets*. In formulating my views I have examined these dicta with much care and I am unable to find the words fixed *assets* or floating *assets*. For instance, in the *Verner* case, towards the end of his judgment, Lindley, L.J., states "... fixed *capital* may be sunk and lost and yet that the excess of current receipts over current payments may be divided, but that floating or circulating *capital* must be kept up. . . ." Why then is the *Verner* case so often cited as authority for the statement with which this article opens?

In examining the text-book statement against the dicta it seems that we have a further example of the looseness of much of accountancy terminology in use.

"Fixed capital" will not, it is thought, be accepted as being synonymous with "fixed assets." Fixed capital is comprised of share capital and perhaps—as to this I have doubt—long-term loans such as debentures; it will usually be represented by both

fixed and floating assets. A fixed asset is one purchased for the permanent purpose of carrying on the business of the company or of increasing the earning capacity of the business: it is the intention with which the asset is purchased which justifies the description and not its inherent immobility, nor the fund out of which it is acquired.

If so far I am correct it seems logical to contend that the answer to the question I have put, as to whether the reference in the text-books correctly states the law, is in the negative. The position would be more accurately stated by saying "In the absence of contrary provision, it is not legally necessary to provide for depreciation on the *assets*, be they *fixed* or *floating*, which represent its fixed capital, in other words, the original monies of the members." My view is that the judges, in all these cases, were reviewing the particular matters not from the fixed asset but from the fixed capital point: in this consideration it became necessary to examine the fixed assets merely as an important element in, and as part of, the fixed capital.

It will of course be recognised that fixed assets are not inseparably connected with, nor are they always wholly purchased out of, fixed capital. Such assets are often acquired out of revenue monies, and indeed most companies regard the conservation of profits for this purpose as being a most prudent policy. Therefore, of those who would support the text-book statement with which this article opens, it may be asked, if floating assets must be kept up because they represent profit, why is there no legal need to keep up fixed assets when they represent profit? I submit there is legal obligation so to do and that the dicta give this indication.

We know that in recent years there has figured in many balance sheets what may be called a comparatively new type of fixed asset—the investment of a holding company in its subsidiary. The investment may be purchased either out of the proceeds of share capital or out of profit. Let me give an extreme example to emphasise the point. Assume that a company with a share capital of £100,000 and a balance on profit and loss of £50,000 expends this profit in purchasing a whole subsidiary interest. At the end of Year I, though the subsidiary has in fact lost one-half of its share capital and there is little prospect of subsequent recovery, the company, imprudent though it may be, shelters beneath the legal guidance contained in the text-books and does not provide for depreciation amounting to £25,000. Over the period of its

corporate being the holding company fully distributes—though not year against year—an amount equivalent to the profit earned from incorporation to liquidation. If liquidation ensue and the investment realises £25,000 the shareholders will receive £75,000 (£100,000 less loss on investment £25,000).

What has happened is that following the text-book authority there has been no provision for depreciation on the fixed asset. Though it is a fixed asset, the subsidiary interest is one acquired with, and representing, revenue money: in making the distribution therefore to the full amount of the profit without taking to account the fall in value of the subsidiary holding, capital has been mortgaged for the payment of a dividend and, in effect, a payment of dividend out of capital to the extent of £25,000 results.

The text-books give no guidance in cases where fixed assets are acquired, wholly or in part, out of revenue money such as in the example I have given. There is a large number of companies to-day whose balance sheets show that they have purchased a subsidiary interest out of profit and yet the investment stands throughout at cost, even when much of the subsidiary share capital is lost. It is to this type of transaction in particular that my remarks have been intended to lead, for it seems that theories on depreciation familiar to us loom into practical importance in these increasingly frequent cases.

It is appropriate to consider that Section 126 of the Companies Act, 1929, requires directors to state in the balance sheet of the holding company

whether provision has been made in the holding company balance sheet for losses of the subsidiary. In the light of the Act to make such provision is therefore optional; but it cannot be thought that those who drafted the Act had in mind the obscure question of divisible profits. We are all very familiar with the much-used wording of the directors' statement under Section 126: "No provision for losses of the subsidiaries has been made in the above accounts."

I summarise by stating that if assets—be they fixed or floating—represent profit, provision for depreciation is legally necessary as otherwise the profit cannot exist: if the fixed assets or floating assets represent fixed capital such provision is not legally necessary. It is fixed capital which may be sunk or lost without provision for depreciation and fixed assets only if they do not represent profit. This is not what the text-books tell us.

From this angle of thought one is inclined to favour the double account system as offering considerable advantage over the present form of commercial balance sheet: in the latter the fixed capital and profit moneys become almost unidentifiably merged in the several assets of the company.

Those who are in agreement with the points I have made may wonder that the consideration has so long remained dormant; but with some much-appreciated exceptions, text-books are largely built upon text-books and in the minds of many this question of depreciation has always been regarded as being largely of academic rather than practical importance.

—Another View

By CEDRIC N. WALTER, Incorporated Accountant

The need for depreciation of assets of any kind leads to a consideration of what is legally necessary and/or what is prudent; it affects three classes of persons, each viewing the need from a different angle. Directors are usually more concerned with what is legally necessary, members of the company with what is prudent, while the auditor has to consider the effect on the balance sheet of provision, or non-provision, quite apart from legality or prudence.

The views expressed by my professional friend, Mr. F. A. Roberts, relate to depreciation of fixed assets acquired with what he terms revenue monies, and only with what is legally necessary; on the prudence of making such a provision there can be no difference of opinion.

As a practising accountant I am, naturally, more concerned regarding the attitude of the auditor. It is not for him to dictate whether or not, how much or how little, depreciation *must* be provided; the decision as to that rests with the directors. By

paying too much attention to a question of the kind now raised, the auditor can run the risk of becoming so impressed with what might be legally necessary for the directors, that he may overlook his own duty.

If, on the information before him, it appears that an asset of any nature is of a lesser value than that shown in the balance sheet, then, irrespective of how such asset may have been acquired, whether it be out of subscribed capital, long-term loans, profits, or out of whatever fund, it is his duty to see that the members are informed of the fact. If the directors cannot be persuaded to make it clear on the face of the balance sheet, he must refer to the matter in his report. The argument of the directors that, because the Court has decided, in certain cases, that there is no legal necessity to provide for depreciation of fixed assets, the asset in question can remain in the balance sheet at cost, does not, in my opinion, relieve the auditor of the obligation to point out to the members that the asset

is of a lower value than that stated. Having acquainted the members with the true position, the auditor has performed his duty; it then remains for the members to take any further steps they may.

Holding this view, my interest in the subject under discussion is really academic, and it is only in that sense that I can discuss it.

The conclusion at which Mr. Roberts arrives is—

"that if assets—be they fixed or floating—represent profit, provision for depreciation is legally necessary as otherwise the profit cannot exist: if the fixed assets or floating assets represent fixed capital such provision is not legally necessary. It is fixed capital which may be sunk or lost without provision for depreciation and fixed assets only if they do not represent profit."

I have read my friend's statement of his views with much interest but, while I may admire the ingenuity of some of his arguments, I am not convinced by them. He appears to arrive at his conclusion by the following reasoning:

- (a) That in the dicta of the leading cases, the judges used the word "capital" and not "assets."
- (b) That in such dicta it is stated that fixed capital may be sunk or lost, without any legal necessity to provide for depreciation, but floating capital must be kept up.
- (c) That by fixed capital is meant the subscribed capital and "perhaps" long-term loans.
- (d) That profits are not only represented by floating assets, but often partly by fixed assets.
- (e) Therefore, assets representing the profits, whether fixed or floating, must be kept up.

But I cannot accept premise (c), and, unless it can be proved true, Mr. Roberts's case fails.

From an examination of the dicta referred to, I am of the opinion that in using the words "fixed capital," the judges did not mean the subscribed capital only. If they did, the corollary would surely be that unless a company makes a profit, it cannot have any floating capital. The subscribed capital of a company is normally represented by assets, which are of two types, differentiated in the Companies Act as fixed and current. When speaking of fixed capital what is commonly understood is the fixed assets representing it, and of floating capital (or working or liquid capital, for the three terms are used synonymously), the floating or current assets. As we all know, there can be floating assets without any profit having been earned and, in some cases, the subscribed capital can be represented entirely by floating assets. If further confirmation be required, one has only to consider the subject of the cases in which these dicta arose; the subject was the adequacy of, or the necessity for, the provision for depreciation of certain named assets.

Consequently, the impression gained from the leading cases is that there is no legal necessity (I stress the word "legal") to provide for depreciation

on the fixed assets, and I do not think it matters from what fund they are created; it is their nature which is the deciding factor. But, and this is most important, this should not be accepted, or put forward as it sometimes is, as a generality. The judges have stated more than once that each case must be considered in the light of its own particular circumstances.

Mr. Roberts gives a specific case of a subsidiary company acquired entirely out of monies representing the credit balance on profit and loss account, that is, accumulated profits, or, to use his term, revenue monies. While that credit balance exists, it can be used to write down this asset, and there would be no loss of subscribed capital if a dividend be paid, which in the circumstances given would be out of profits of the company, derived from sources other than the subsidiary company, which would not be in a position to declare a dividend. Unless it did so, the parent company has no income from that source. If the credit balance on profit and loss account, the accumulated profits referred to above, becomes exhausted by loss on trading, or depreciation arising from this or other assets, and assuming there are no other reserves, the subsidiary company asset would then appear in the balance sheet as though it formed part of the subscribed capital when, on Mr. Roberts's own arguments, there is no legal necessity to provide depreciation. In any case, in my view, the attitude of the auditor remains unchanged, he must see that the members are informed if the real value of an asset is lower than the stated value.

A further impression one gains from a consideration of the leading decisions relating to the legal necessity for provision for depreciation is that what was being really ascertained was whether, in the particular circumstances of each company, that company was contravening the legal principle that it may not include in a dividend to its members any repayment of subscribed capital.

Following this, I suggest it would not be impossible to argue, and quite successfully, the converse of my friend's proposition, and say that there can be no legal necessity for providing for the depreciation of any asset which has been acquired out of profits, or revenue monies, in excess of the subscribed capital.

In the limited space at my disposal it is not possible to elaborate the argument, neither have I the inclination to do so, because, as I have previously remarked, I regard the question of depreciation mainly from the point of view of the auditor and while he must be acquainted with the theory of depreciation, his overriding consideration lies not in considering what may, or may not, be legally necessary but in seeing that the members, whom he represents, are presented with all relevant information in accordance with the obligations imposed upon

him by Section 134 of the Companies Act, 1929.

It can, however, be seen that on the subject of this discussion there can be two points of view, differing from that followed in general practice.

Perhaps the Incorporated Accountants' Research Committee will one day focus the searchlight of their attention upon it and provide us with an illuminating—and an authoritative—opinion.

The Accountant from My Viewpoint

By a KING'S COUNSEL

Accountants are not always aware of how they appear to the members of other professions. We therefore asked an eminent King's Counsel to give us his view of the accountant in a short article and we publish it exactly as received

The tabulation of money figures so that the story they tell is clear and unmistakable involves the existence of men who can devise the principles upon which such tabulation must proceed, who can apply those principles in actual fact, who can check and verify both the system followed and the actual work done, and who can explain to the outside world, when necessary, how and why such principles are sound and such results are correct. It is within the lifetime of persons now alive that accountancy has risen in status from an occupation to a profession, and, though during the War the public became aware of the astonishing progress achieved by accountancy, few can have foreseen how the increase of taxation and the multiplicity of schemes for governmental, local, financial and other regeneration, with their resultant regulations and arrangements, have called for the assistance of the accountant.

The lawyer who, like the accountant, fills the position of an adviser rather than that of a manager or administrator recognises that there are matters which call for the advice of others than himself, but he cannot but regret the tendency of the times which seems to welcome the ever-increasing intervention of the accountant, while restricting, almost in some countries to the point of destroying, the beneficent work of the lawyer. It is with regret that a lawyer sees himself in the process of being superseded as the valued general adviser of the statesman, the local administrator, the manufacturer and the merchant.

The lawyer, as a practising member of his profession, often meets the accountant as his adviser in technical matters or as an expert witness. The audit of accounts may involve legal questions; indeed, it has been said that once the system has been settled and the vouching of entries and their mathematical accuracy has been established, the only points of difficulty that arise are matters of law. It is not often that such points come before the Courts in governmental matters, but the well-known *Cockerton* decision illustrates the truth of this observation. In matters of business and in the affairs of private life the number of occasions on which the lawyer and accountant must collaborate are infinite. Even if such matters chiefly involve finance, whether strictly business or taxation or the administration of estates and trusts, there is no human activity which may not call on them to act together. In the criminal law,

which accountants only learn as the general public learns it, such cases as those of *Hatry*, *Harris* and *Kylsant* are a reminder that the modern accountant takes all law courts in his stride. Without the work of the accountants in those cases prosecution would have been impossible.

The accountant, by the nature of his occupation, is also found by the lawyer as a client, not usually on his own behalf, but as liquidator, as trustee, and in ever-increasing proportion as director of a company whose affairs call for legal assistance. In these cases the accountant may not be able to assist the lawyer; on the contrary, he usually comes because he feels the need of advice and help.

What is it that a lawyer expects from an accountant? It is suggested that he wishes a clear statement (1) of the system followed and, if need be, of the principles upon which that system is based; (2) of the points where that system has or has not in fact been followed and applied; (3) of the significance of the facts appearing in the accounts, so that he can appreciate the bearing they have upon the problem he has to handle; (4) of the considerations which answer any criticism or objection that may be made upon the accountant's conclusions. The lawyer will, of course, expect that the accountant will appreciate the existence and nature of the legal problem. In all these matters he will assume, and rightly assume, that the accountant, whether as adviser, as co-worker or as expert witness, will display that knowledge of his work and rectitude in mind and conduct which are to be expected of a professional man who has as his motto the proud words: "*Fides atque Integritas*."

RECENT LEGAL CASES

The following recent legal cases are dealt with in this issue:

CASE	PAGE
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<i>Batty v. Baron Schroder</i>	419
<i>J., S., & G. Cusden v. Eden</i>	420
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Society of Incorporated Accountants Conference at Nottingham

Nottingham, then called "Tuigabauc" or "Tinogsbane"—"cave homes" or "place of caves"—was first in the occupation of ancient Britons; the Anglo-Saxons later inhabited the town, and called it Snottingham—"the home of wise men"; later still it was attacked and captured by the Danes; then periodically regained by them and the Anglo-Saxons in turn; several times afterwards in Middle English history the town or its castle was besieged, occupied, or raided.

On July 19, 1939, history repeated itself. A strong force of Incorporated Accountants drawn from all parts of the country converged on Nottingham, entered the city—again making it "the home of wise men"—and occupied the University College on heights known as "Highfields," dominating the town. The occupation continued, Incorporated Accountants retaining their vantage point, until on July 22 sorties were made in groups from Highfields, and another occupation of this ancient city, which had seen so many in the past, came to an end. . . .

* * *

It is tempting, but difficult, to continue the metaphors. Better to begin by saying how at the opening ceremony of the Incorporated Accountants' Conference, the Principal of University College and the Lord Mayor of Nottingham gave a generous welcome to those attending. Mr. H. A. S. Wortley, the Principal—who, incidentally, is one of the dozen or so chief organisers of A.R.P. arrangements in the country—greeted the members and their friends on behalf of the Council and the Senate of University College. "We work in close association," he said, "with the local branch of the Society of Incorporated Accountants. They help us on our advisory committees, and we help them in various courses of education." Alderman J. B. Baldwin, the Lord Mayor of Nottingham, in officially declaring the Conference open, averred that Nottingham was well served in the educational world, and it now only remained for the coping stone to be fitted to the city's educational system—for the University College to become a University. He hoped that if Incorporated Accountants were advising their clients on the disposal of surplus cash, they would bear in mind Nottingham University College, whose authorities were proud and glad to place their buildings and facilities at Highfields at the disposal of the Society for its Conference.

* * *

Mr. Percy Toothill, the President, with his usual dignified demeanour, rose to thank the Principal and Lord Mayor and to reply. "If the members of the profession are to offer their best services to the

public, I am certain that it is essential that they should meet their fellow-members in this agreeable way for a few days to discuss questions of mutual interest, and to develop that friendly spirit which has happily always characterised the Society of Incorporated Accountants. There are few enterprises in which the civic authorities, the industries of a city, and its educationalists can co-operate to a better purpose than in the cause of higher education. Nowhere is that happy co-operation so splendidly exemplified as in the City of Nottingham, and we are fortunate in being able to share in the fruits of that development which is of such great credit to the City of Nottingham."

* * *

Mr. Witty, in seconding, glanced at the wider implications of the visit to Nottingham University College. Some consideration, he said, had already been given to the facilities which were offered, or which might be offered by universities for training accountants. They themselves had held two or three refresher courses at universities, though he thought that was the first time they had held a conference in the precincts of a university or university college. The proceedings might prove of greater importance than appeared from a perusal of the programme, for it was not impossible that some of their members might discover that indefinable secret of university life and training that had left such an indelible mark on other professions—with consequences which might eventually be momentous so far as training for accountancy was concerned.

* * *

On the evening of Wednesday, July 19, the Corporation of Nottingham gave a reception and dance at the fine Council House. There were some four hundred guests present, who had previously been received by the Lord Mayor and Lady Mayoress. By common consent, the dance was a magnificent function. Thanks went out from all sides to the Lord Mayor and Corporation for their hospitality.

Thursday—two functions arranged and two visits to factories; most members and guests attended both functions—the attractions of both were mainly gastronomic! The first, a lunch, was given by the Incorporated Accountants' District Society, and its President, Mr. Fred. A. Prior, took the chair. He assumed—and without doubt he was right—that he was the only one of the 300 or so people in the Refectory who knew that, by coincidence, the day of the lunch was the natal day of another Prior—Matthew—whose grave is in Poets' Corner in Westminster Abbey. Great laughter from the 300 when Mr. Prior said he did not claim that he was an ancestor of the poet. An aberration, or was Mr. Prior deliber-

ately thinking in terms of that famous line from another poet—"The child is father to the man"? We shall never know. The dinner of the Society of Incorporated Accountants in the evening. Undoubtedly an enormous success. The speeches deserve the extensive report we give to them below; the list of those present takes several columns of small type in a later position of this issue.

* * *

The industrial visits were to Boots' works and Player's factory—two fine Nottingham enterprises. We saw the machines at work, but confess we were mainly concerned with watching for all the pretty girls for which the two factories—and Nottingham itself—are world-famous. Nor did we watch in vain. . . . But we must now confine ourselves to other things—like steam-jacketed emulsifiers and kneaders, filling machines, and "paternoster" conveyors. Things like great stainless steel pans holding a thousand gallons of seething oils or emulsions, seeming to be, except for the airiness, cleanliness, and brightness of the place, and the replacement of witches by pretty girls, a gigantic representation of Scene I, Act IV, from *Macbeth*. Or, at the other works, vast batteries of tobacco-cutting machines, heating apparatus, machines producing every minute hundreds of cigarettes each. In the first factory our thoughts—when not diverted in the way we have already mentioned—were mainly of Anthony Bertram's description of the building, "An astonishing piece of gymnastics in concrete and glass, not for the fun of it, but to produce efficient and pleasant working. Colour plays its part—greens and powder-greys, the pervading white, and the varied iridescence of glass. Here is a building that our century can be proud of, prouder than of most of its churches and town-halls, a building that serves mankind." In the second factory, we turned from æsthetics to mathematics. "If all the cigarettes produced in this works in a year were laid end to end, how many times would they, like Puck, engirdle the earth?" Surely among a body of Incorporated Accountants there should be many who carry the answer in their heads? All they seemed to carry on this occasion, however, were gifts generously given by the directors of both companies!

* * *

On Friday a garden party. But whom the gods love they first shower rain upon. Sir Julien Cahn's Stanford Hall grounds and cricket field were inspected between downpours, and the entertainment he provided in his private theatre was a judicious piece of foresight. In the evening, another display of Terpsichorean art in the Great Hall of University College. This was a right enjoyable function. Saturday was spent away from the Conference headquarters in a visit to Welbeck Abbey, seat of His Grace the Duke of Portland, who the previous day had celebrated his golden wedding there. No rain until the last ten minutes.

But what of business, what of the point and counterpoint of technical debate? We were provided with three papers. First, an address by the President. Weighty words on the regulation of industry and commerce by Government, and the place of the accountant in affairs of State. He who runs may read, and the address is given in full on following pages. Second, Mr. W. Norman Bubb, expatiating with pellucidity on the accountant and the community; calling forth a long debate on the profession's responsibilities and duties; taking a stand on the right of the accountant to gain for his client the benefit of income tax remissions provided he is within the law. Third, Mr. W. H. Fox's original paper on the accountant and the individual, a summary of how the perfect accountant should advise his client, and how the perfect member of the public should always consult an accountant. The main thought we had while listening to Mr. Fox, he might have taken as his catch-phrase: "The man who is his own accountant has a fool for his client." It seemed to us rather subtle—and true.

* * *

Thus Incorporated Accountants' Conference, Nottingham, July, 1939.

THE CONFERENCE DINNER

The Conference Dinner was held in the Large Refectory at University Buildings, Nottingham, on Thursday, July 20, the President of the Society, Mr. Percy Toothill, F.S.A.A., occupying the chair. A reception by the President and Mrs. Toothill in the Great Hall preceded the dinner.

The loyal toasts having been duly honoured, **Mr. Richard A. Witty**, F.S.A.A., Vice-President of the Society of Incorporated Accountants, proposed the toast of the Lord Mayor and City of Nottingham.

Mr. Witty said that the people of Nottingham had real reason to be proud of their City, their wonderful Council House, the University College and the many other evidences of their sense of citizenship. They were also fortunate in having within their boundaries men and women who had devoted their lives and wealth to the enrichment of their city and the betterment of its people.

The Real Wealth of a City

In the present abnormal state of affairs, however, it was well to remind oneself that the real wealth of a city, like the real wealth of a nation, was not to be found in bank balances and buildings, but in the lives and character of the people themselves. He would like, therefore, to refer to the effect of the work of the Lord Mayor and of the city on the life and character of its people.

The Corporation of Nottingham might be excused if they were a little tired of the initial letters A.R.P., because those letters had meant an enormous amount of work and strain on municipal bodies. He only referred to A.R.P. because it seemed to signify a new conception, a new outlook upon international relations, an outlook which insisted that the character of the people might be a determining factor if there were any future struggle between nations. England fortunately

was able to meet emergencies with a certain measure of equanimity, but he thought that above all it had the reputation of never ceasing in an effort to win once it was engaged in a struggle. That reputation, it was worth noting, was held not only in their own country, but also in others.

The City as Preserver of Liberties

Whence did that reputation come? It was certainly not accidental. If they studied the history of their own country, even superficially, they were forced to the conclusion that the character of the people had largely been created and maintained by the civic government of the country throughout the centuries. In olden times they had wars between city and city, town and town, castle and castle, and those struggles were quite as bitter as any they might witness to-day between nations. In those days it was to the Mayor and Corporation that the people looked for the preservation of their liberties, and the Mayor and Corporation did not hesitate to call upon the people to assist in the process of preservation.

The liberty of olden times, as now, included liberty of the mind and intellect as well as liberty of the body—and that was an important thing. Of course, Corporations and their work to-day were subjected to criticism. He supposed that this was an outcome of freedom of the intellect and of the mind. Unfortunately, the criticisms were not always of an enlightened character. As a little offset, however, he was going to tell the Sheriff of Nottingham and, through him, his colleagues, that the work of the city was certainly amply recognised by that gathering of Incorporated Accountants. The city's efforts were going to be of great value to this nation, and the results of their labours would continue for countless generations.

Mr. L. Pilsworth, the Sheriff of Nottingham, in replying to the toast, said that first of all he must express the regrets of the Lord Mayor that, owing to his having received a summons to attend the Royal Garden Party at Buckingham Palace, he was absent from the dinner. Mr. Witty had delved into the distant past of their great city—a past of which they were still finding evidence in the unearthing of old dwellings. Realising the struggles and trials with which the City of Nottingham had had to contend in the old days, one appreciated the efforts of those who had brought to it business, culture and religious life.

Recent Progress in Nottingham

Nottingham had progressed much during the past twenty years, and they were very proud at some of the achievements of the governing body. Their slum clearance scheme was second to none in the country. They had been able to rehouse the people from slum areas in beautiful dwellings and in lovely surroundings and to give them up-to-date schools. They had been able to replan their city on a large scale so as to give wide open spaces and new and attractive roads, and for those things alone they deserved the congratulations of the country. If they did not actually lead the rest of the country in regard to A.R.P. they were doing their best to be in the forefront.

Utilising the Accountants' Services

The Sheriff congratulated Incorporated Accountants

upon what they were doing, not only in this country, but in the British Commonwealth in general. As a business man he would like to say how much he appreciated the assistance of his accountants, and he would like to offer a little advice to others, namely, that instead of consulting accountants after a year's work they call them in once every month to see how the business was getting on. (Laughter.) He was certain that that would be a safer course. (Hear, hear.) The whole business community would be better served by such continuous contact and advice. The Sheriff concluded by thanking Mr. Witty for the manner in which he had proposed the toast.

The toast of "The Society of Incorporated Accountants" was proposed in felicitous terms by **Sir Hugh Seely, Bart., M.P.** He said he was delighted to see that they had the high membership of 7,600, and that those who had obtained membership had passed a very severe examination. Nevertheless, he was glad that the whole of the 7,600 were not present that night. (Laughter.) He was also very pleased to see that no less than 3,500 members of the Society had volunteered to serve the Government in an emergency, and had registered themselves for that purpose. The proportion was nearly fifty per cent., which was a very large one.

Nottinghamshire as Wealth Producing

He was glad that they had chosen Nottingham for their Conference because he was born in the county and his family were also born there. In Nottinghamshire people were wealth-producing. There were counties which had suffered greatly and from which the wealth had gone, leaving nothing but disaster behind. But Nottinghamshire was still the greatest wealth-producing county there was. Perhaps it was because the county was so wealthy that Incorporated Accountants had come in to help them to distribute the wealth. (Laughter.) Facts and figures were minor things, however, compared with the greatness of the human character; doing away with slums and making the people happy and healthy were the real things that mattered.

Mr. Percy Toothill, F.S.A.A., President of the Society of Incorporated Accountants, responded to the toast. Mr. Toothill said that of the number of speeches which it would fall to his lot to deliver during his term of office as President of the Society of Incorporated Accountants, he did not think there would be many which would be in response to a more delightful speech than that of Sir Hugh Seely in proposing the toast of the Society. The traditions of the Society were worthy of the kind words to which Sir Hugh had given voice. On behalf of the Society's members Mr. Toothill most heartily desired to thank the proposer of the toast for his charming speech.

Nottingham's Welcome to Incorporated Accountants

At the outset he wished also to say how pleased he was that his first after-dinner speech as President of the Society was given at a Conference of its members from all parts of the country, and also that the dinner was held in that magnificent building. The hospitality which had been extended to members and visitors, not only by the local Society, but also by the Lord Mayor and Lady Mayoress of Nottingham, the University College authorities, the directors of Boots and Players, the

Duke of Portland and Sir Julien Cahn, would be cherished in their memories for a very long time. They would have on another occasion an opportunity of expressing their thanks in a more formal manner, but he would not like that opportunity to pass without saying how deeply indebted they were to all their kind hosts on the occasion of the Conference.

When he saw their graceful Council House in Nottingham, when he lived for a few days in these magnificent University College buildings and regaled himself as he had that night in the Refectory, when he paid a visit to that wonderful piece of modern architecture, Boots' factory, and to that monument of modern industry, Player's, he felt that it might be true, as he had sometimes in the past been told, that there were other provincial cities besides Sheffield. But the Society had already held a Conference in Sheffield! It was a very happy thought which led the Incorporated Accountants' District Society of Nottingham, Derby and Lincoln to invite them to visit Nottingham on the occasion of their Conference in 1939.

"Striking Oil"

They had all seen enough of the Nottingham district in the last day or two to know how rich in history it was. He had noticed in the newspapers some days previously that the district might prove to be rich in other things, for a company formed to prospect for oil reported that it had tapped oil supplies in the county which might prove to be extensive. He hoped that would be the case, and that an important product, for which the country at the moment was largely dependent upon foreign supplies, would be extracted from the very heart of England. But it seemed to him that the prospecting company were not the only people to have struck oil in the County of Nottinghamshire, for on looking round this assembly, and judging from the prosperity which appeared to surround them, he wondered whether Incorporated Accountants and their friends had not done likewise.

The Value of the Personal Element

Accountants in their professional life were placed in as good a position as anyone to see how valuable was the personal element in business. They all of them knew how vital a part in the affairs of this country was played by the comparatively small trading and manufacturing unit, often run as a family concern and holding the welfare of its employees to be as important as the earning of substantial dividends. The development of large-scale industry did not necessarily mean that this personal element and these ideals were lost. Nottingham provided outstanding illustrations. The two concerns whose premises their members had visited on the day of that dinner, and which had caused the name of the city to be stamped on packets of cigarettes and medical products the whole world over, were large concerns indeed, but they were characterised by a survival of the personal element and an outstanding solicitude for their employees' welfare. He only wished the same thing were true of every large concern in the country. But for that to be so it would be necessary for the family interest to be retained in industry as it had been retained in those special instances.

He felt also that the loss of the personal element in some of the gigantic enterprises of to-day might far

outweigh the increase in technical efficiency which accompanied it, and the same process might bring about a lack of imagination in industry and trade which was to be deplored. The development of ideas must not be restricted by the fettering of individual initiative.

In a happy speech, **Mr. Fred A. Prior**, F.S.A.A., proposed the toast of "The Guests." He created amusement by alluding to the Royal Garden Party as "entering into competition with, and even opposition to, the Society's Conference" and, therefore, accounting for the absence of a few of the principal guests who had accepted invitations. They were grateful that the counter-attraction of the Royal Garden Party—and also the banquet of the Chambers of Commerce of the British Empire—had not robbed them of the presence of the ladies, whom they were delighted to welcome as their guests. And they were pleased that they had as the proposer of the toast of "The Society" Sir Hugh Seely, the Member for Lincoln. Mr. Prior also sincerely welcomed Sir Julien and Lady Cahn and the Mayor and Mayoress of Lincoln. To ensure that their proceedings were conducted with due decorum they had included among their guests two bishops and one other high dignitary of the Church. Further, there were present civic heads, presidents of kindred societies and professional associations, including the medical profession—to one and all of whom they extended a hearty and cordial welcome. As regards Bishop Talbot, with whose name he coupled the toast of "The Guests," he would mention, in case there was need to refresh Bishop Talbot's memory, that the words he was about to quote were to be found in a certain hymn, in Hymns A. and M. The words were: "He came sweet influence to impart, A gracious, willing guest." Concluding, Mr. Prior said that he had the utmost pleasure in submitting the toast, at the same time recalling that the name of Talbot was associated with Talbot House, Poperinghe, and that from that house had sprung the great Toc H movement. (Applause.)

Bishop Talbot replied in a humorous speech. He said that he always commenced an after-dinner speech by what he described as "parking the halo." Talbot House was really associated with the name of his late younger brother, Gilbert, though he (the speaker) had certainly been able to "pop Tubby Clayton into Pop." Bishop Talbot said that the greatest difficulty which faced the respondent to a toast of "The Guests" was the search after the highest common denominator which fitted into them all. In the case of that dinner, the list of guests was so varied that the only common denominator which he could find was "gastric." The difficulty of finding a common element among varied professions and callings was illustrated by the story of a bookie's tick-tack man who was sent to represent a bookmaker at the funeral of a colleague. The tick-tack man was unaccustomed to the ways of the Church and far more accustomed to giving signs of the odds, for or against. When the clergyman made a sign, therefore, as he repeated the words "May his soul rest in peace," the tick-tack man exclaimed, loudly, "That's 20 to 1 against." (Laughter.)

A complete list of members and guests at the Dinner is given on pages 437/8.

Accountants and the Armaments Phase*

I am delighted to have the opportunity in my maiden speech as President to address the members at this Conference and to thank my fellow-members in Nottingham for having provided this occasion for deliberation and enjoyment.

I understand the President's address is not followed by a discussion and therefore I can enjoy the comfort of immunity from criticism—a comfort so kindly vouchsafed to me to-day, but not one upon which a President can continually expect to rely. But I rejoice to think that my distinguished predecessors so happily recall the loyal support and goodwill of all the members and I trust that my period of office may equally be one of progress rather than of controversy.

Commerce and Industry and Government Regulation

Very different from the present were those spacious days of individualism and stability when the Society of Incorporated Accountants was established. We now exercise our profession in anxious times: but we can face these more exacting conditions, not only with courage, but also with the advantage of the varied experience of over half a century.

It may not be entirely a subject of complaint, but it is a fact which we must take into account, that a large element of regulation and restriction has necessarily entered into the industrial, commercial and financial life of the country. The business man and manufacturer, whether he is a partner in his firm or director of a company, while still enjoying considerable freedom of action, must conduct his affairs in conformity with an ever-increasing amount of legislation and regulation. This burden is one which he can only be expected to bear if he is guided by proper professional advice—largely, I suggest, from those who practise the accountancy profession. And it can indeed be said that much of this legislation and regulation unconsciously assumes that our professional advice will be sought and acted upon.

To the complications of financial legislation there has now been added substantial control of production through the Ministry of Supply Bill, involving complicated problems of accountancy and costs. In addition, the taxation of armament profits—a species of tax with which the accountancy profession dealt, though in a somewhat different form, some 20 years ago—has been imposed.

Expenditure, Borrowing and Taxation

The Chancellor of the Exchequer indicated last week that the total of Government expenditure for

the current fiscal year would be no less than £1,400 millions, of which £500 millions would be raised by borrowing. It is indeed difficult for the mind to comprehend the significance of such enormous and unparalleled figures for peace time. On the other hand, I find some comfort in the fact that whereas in 1931 the estimated savings of the nation by thrift was £2,365 millions the latest figures available indicate that the total is £3,386 millions, an increase of 43 per cent.

As I see the position, it is as follows. The Government are spending enormous sums both from borrowing and from taxation in the purchase of equipment for National Defence, in the payment of largely increased personnel in the Services, and for the storing of necessary supplies, such as food. It has been determined, as a matter of financial expediency, that a large part of the necessary payments shall be met by Government borrowing. Past history and the normal result of Government expenditure from borrowing has naturally raised some apprehension of inflationary tendencies. We are told, and I think we can accept it, that until we pass the point of what is called "full employment" we shall not have reached a position that can be described as inflationary. It is equally clear, however, that the public have wondered whether such vast expenditure over a comparatively short period can fail to give rise to exceptional profits.

The appearance of exceptional profits on a large scale would be some indication of inflation. It is easy to decry profiteering, and I need not deny that it has happened in the past; but it is as well to remember that what may popularly be described as "profiteering" may be the inevitable consequence of a very rapid expansion of production.

Profits will make their contribution to the National Revenue by way of National Defence Contribution, income tax and, when such profits reach individuals, in some cases sur-tax. In an attempt to carry out the policy that exceptional profits shall be exceptionally taxed, the Government have imposed an Armament Profits Duty, payable upon an increase in profits above a datum line. This, like other attempts to tax an increase of profits, is not free from difficulties and anomalies. The duty has, however, avoided some of the serious objections which rendered the original N.D.C. proposals impracticable; but this duty is an instrument of policy more than of revenue raising. In fact, contrary to usual budgetary practice, no statement has been made as to how much it is likely to produce. It can be said that, assuming the A.P.D. is to produce little revenue, either the exceptional profits, which the duty is to tax, are smaller than anticipated or else the net has

*An address given on July 20, 1939, by the President of the Society of Incorporated Accountants, Mr. Percy Toothill, F.S.A.A., at the Nottingham Conference.

not been spread widely enough and the enterprises affected by A.P.D. are by no means all of those which may earn exceptional profits. We are probably all agreed about the undesirability of exceptional profits arising from existing conditions; but it is easy to overlook the enormous problems of depreciation, obsolescence and unused plant which may present themselves in the future, and, if past history repeats itself, the reaction of exceptional profits to exceptional and even disastrous losses.

The Control of Prices and Costing

To turn to another aspect to be found in the recent debate on the Ministry of Supply Bill, it is certainly interesting to find how members of Parliament recognise the valuable services which the accountancy profession renders and the importance of the independent position of those who carry on public practice. Much time was spent during the debate in discussing the control of prices and costing and whether the one can be effected by the exercise of the other. It is agreed that it is far more satisfactory to prevent exceptional profits arising than to tax them after they are made. But now, when the control of prices through costing is being continuously expanded, I should have thought some consultation with the accountancy profession on what is essentially an accountancy problem would have been advantageous. We would gladly do all in our power to co-operate with the Government in the matter with a view to protecting the public interest.

Savings and Safety-First Investments

We have passed through a long period of exceptionally cheap money and it is clear that the Treasury and the Bank of England have been working with a new technique, of which the Exchange Equalisation Fund is an important instrument. No doubt it is the intention of the authorities, for obvious reasons, to keep money cheap, but also there are signs which call for attention. The drop in the price of gilt-edged securities, occasioned no doubt by political considerations, but in part, at any rate, by present and prospective Government borrowings, has implied a rise in the rate of interest earned by investors in gilt-edged securities. On the other hand, the range of investments particularly sought by small investors, which in the aggregate are very considerable, for example, the Post Office Savings Bank, National Savings Certificates, Trustee Savings Banks and Building Societies, continue to yield stable rates. There is no doubt a large volume of funds awaiting investment, and this fact, combined with the feeling of insecurity, accounts for a large volume of funds being held in what are regarded as safety-first investments, involving no depreciation of capital (in terms of money), though the rate of interest earned is small and, in some cases, where the type of investment may be comparable, less than the interest earned in gilt-edged securities. Obviously

the investor is seeking safety first for his capital. Major objectives of financial policy, to keep money cheap but at the same time to avoid inflation, can be understood from many points of view. This is particularly the case because investors, especially small investors, in the range of investments I have mentioned, to say nothing of those holding maturing assurance policies, would suffer a real as distinct from a nominal loss as regards both capital and interest through a fall in the value of money—in other words, through a rise in the level of prices.

National Service and the Accountancy Profession

So far I have dealt with the circumstances relating to finance and taxation, but I must refer to the possible effects arising from the phase through which we are passing in relation to the personnel of our profession. In the first place there are a large number of competitive occupations open to boys leaving school. The accountancy profession in the last decade has been considerably sought as a career, and even during the years of the depression it enjoyed considerable favour. On the facts as I see them there is no reason to say that there is any marked change as regards new entrants, though the number has fallen somewhat. At the same time we must take into consideration the call of the fighting services to the young men of the country and the other openings which have arisen through the development of National Defence. Nevertheless, the accountancy profession is of national importance and its interest and its varied work offer good opportunities for those with the right flair, personality and ability.

The Council of the Society has endeavoured to mitigate the effect upon the period of professional training of the six months' service in the Militia which will affect nearly all the Society's candidates. I recognise the increment of strength and physical fitness which that period will bring to them. They will be allowed six months from the service required by the Society's Regulations, but a break of six months in professional training must present some difficulties. I hope the candidates, by increasing the intensity of their professional work and studies and by the sympathetic interest of employers, will overcome whatever inconveniences may seem to arise. It is proper to add that the standard of the examinations and of admission to the Society will be entirely maintained.

I have already mentioned the desire of the Society and its members to co-operate with the Government in any way which may be possible, and in concluding my speech I would thank the large number of members who responded to the call to offer accountancy services in an emergency—many of whom are also engaged in other forms of National Service.

The paper given at the Conference by Mr. W. Norman Bubh, F.S.A.A., on "The Accountant and the Community," and that by Mr. W. H. Fox, F.S.A.A., on "The Accountant and the Individual," will be published later in ACCOUNTANCY.

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THE ACCOUNTANT AND NATIONAL SERVICE

From time to time we have commented upon different aspects of national service as they affect members of the accountancy profession. It may be useful—even at the risk of some repetition—to present a more complete and detailed picture.

At the behest of H.M. Government the Society's organisation and its individual members have already done much in response to the requirements of the national situation. At the beginning of 1939, the Society, in co-operation with other accountancy bodies, prepared a register of members prepared in time of war to offer themselves for appropriate work in their professional capacity. Simultaneously accountancy was placed on the list of "reserved occupations" in respect of those over 30 years of age.

As the register was being constituted the campaign for other forms of national service was intensified, and on April 27 an announcement was made that accountancy was removed from the list of reserved occupations during peace time. The effect was that members, both those who had volunteered for the accountancy register and those who had not, were enabled and tacitly requested to take up other forms of national service, including service with H.M. Forces. The question of age was not brought into this important change, but, speaking in general terms, the effect must be that younger members will assume the more active forms of National Service, while more senior members will hold themselves in readiness for service specifically of an accountancy character through the operation of the register, which remains as originally constituted. The position might, perhaps, have been simplified had the accountancy register been limited to members over a higher age limit.

Enquiries have reached the Society from members asking whether there were available in one or other of H.M. Forces opportunities for those having accountancy qualifications. In some directions these requirements, which were somewhat limited, were quickly filled, but short service commissions for accountant officers in the R.A.F. are still available, and a limited number of applications may now be submitted for enrolment in the Army Officers' Emergency Reserve (where accountants over the age of 40 may be accepted for the Royal Army Pay Corps or other technical corps, such as the Royal Army Ordnance Corps, for which a knowledge of accountancy and stores is required) or for commissions in the Royal Naval Volunteer Reserve Air Branch

(age limit 17-21), though in this latter case the work is not necessarily of an accountancy character.

We recognise the desire of younger members that, if possible, their specialised experience should be utilised, but they will appreciate that vacancies for qualified accountants in their professional capacity are somewhat limited, and that, whilst it is not possible to utilise the services of all of them in a technical appointment, their knowledge and experience will prove very valuable in many of the duties performed by Regimental Officers in the Territorial Army or other Forces.

For members in practice there are several problems. The immediate problem arises from the depletion of staffs through Militia or Territorial Service, but this is being dealt with by individual firms, and no general question has arisen. Firms have doubtless considered their possible position in the event of war. Partners may be called upon to perform accountancy services if their names are on the accountancy register. In their ordinary capacity they may be required for military and other national service. Doubtless, also, there will be accountancy problems of a new order. But this problem will be accentuated in the case of firms with, say, two partners with a limited staff, or single practitioners. There is naturally some anxiety lest the goodwill of practices built up after years of strenuous work may be seriously impaired, if not entirely lost, unless some arrangement is made in advance.

The Council of the Society has carefully considered this last problem. It is of the opinion that the problem can best be dealt with by negotiation and good will between individual members. An elaborate and detailed general scheme is likely to raise as many difficulties as it attempts to solve. Many practitioners will have professional friends to whom they will naturally turn, and mutual arrangements should not be difficult. But the Branch and District organisations of the Society may give helpful service by compiling (a) a list of members in practice who are likely to need help; (b) a list of those who are willing to offer help. A member on list (a) will be able to select a member or firm on list (b) with whom he would like to negotiate. In cases of difficulty, members will be advised to consult either the President or Secretary of the District Society, or, if necessary, the Secretary of the Society. The precise terms and arrangements will vary from case to case, as many points will call for consideration—the sharing of fees, the ultimate goodwill of the practice (in case of need), office staff and accommodation, new business and the acquiescence of clients in the arrangement. The Council proposes accordingly to advise District Societies to proceed with the preparation of panels, and will make available a list of main points which it is suggested should be given consideration by those who are entering into private arrangements of the kind contemplated. Reliance must to a considerable extent be placed upon a spirit of good will among members and the determination that a member's practice shall suffer as little as possible through his absence on service for the country.

It is well to conclude by emphasising that "preparedness" rather than "inevitability" is the standpoint from which these problems have been discussed.

TAXATION**"H.M. Inspector of Taxes"****A SKETCH OF DISTRICT ORGANISATION**

By W. B. COWCHER, B.Litt. (*Late Principal Inspector of Taxes*)

The total strength of the Chief Inspector's branch is approximately 15,000, of which the inspectorate, or "technical" staff, accounts for about 1,700; whilst there are approximately 13,000 clerical officers who are established civil servants. At the end of 1906, the totals were 430 and 584 respectively; and, of these last, the only established civil servants were five lower-grade clerks who formed the clerical staff of the Chief Inspector at Somerset House. The rest were "private clerks to surveyors," paid meagre weekly wages ranging from 25s. to 45s. per week.

Before going further, explanation is necessary of the distinction between the technical and clerical staffs of the branch. Although the former term is restricted to the inspectorate, as a matter of fact, except in the routine grades, all the work of a tax office is of highly technical character. There is a further point to be considered. Experiment is always going on. Work, strictly reserved for the technical staff in the past, is not so strictly reserved to-day; and the sharp division of function has become slightly less pronounced. Subject to these cautionary remarks, it may be said that, apart from the administrative functions and responsibility of the District Inspector, and the supervisory work of his technical assistants, the main work of the technical staff lies in connection with the determination of the gross figures of assessments under Schedule D, whilst that of the clerical staff comprises almost everything else, including, of course, the routine work of the office.

The skilled clerical staff deals with Schedules A, B and E, repayment claims and all the personal allowances from the gross Schedule D assessments. Exceptions to this division are the management expenses claims under Section 33 of the Income Tax Act, 1918, and Dominion Income Tax relief claims other than by individuals. These are dealt with by the inspectorate. Another way of indicating the division of function between the technical and clerical staffs is to say that whilst all officers above the lowest grades are supposed to have an elementary knowledge of the sections which govern the work they have to do, all questions which depend on the interpretation of Acts and Cases and are not covered by the official instructions, are normally referred to the technical staff, unless required to be submitted to Head Office.

The inspectorate is divided into different grades comprising Senior Principal Inspectors, Principal Inspectors, Senior Inspectors, Inspectors (Higher Grade), Inspectors and Assistant Inspectors. To-day,

no Inspector below the higher grade is in charge of a district.

Whilst the inspectorate is a homogeneous body, there are several class divisions amongst the clerical staff, due to differences in recruitment and to the existence of a very large body of ex-service men whose conditions of employment are of special character. The clerical officers, recruited by a special examination, form the backbone of the clerical staff. The remaining classes comprise established shorthand-typists and female clerical assistants, the last mentioned being, the writer believes, the lowest grade of established civil servants. In accordance with modern ideas, "ladders" are provided whereby it is possible for the specially deserving to pass from one class to another. The new entrants from the Taxes Clerical Examination are now called Tax Officers; and it is quite within the bounds of possibility that one of exceptional merit and capacity may at some time or other rise to be Chief Inspector. The different grades of the Tax Officer class are Senior Staff Officer, Staff Officer, Tax Officer (Higher Grade), Senior Tax Officer and Tax Officer.

The tax district is a geographical unit, with the parish or ward as the ultimate basis. Its area may contain hundreds of square miles of "poor and wide" country, or a few acres in the City of London. With the sole exception of British railways, no attempt has been made to have the accounts of ultra-complex character—for example, those of assurance companies—dealt with by a specialist staff, though the pros and cons of such a policy have been considered at different times. To-day the district deals with whatever is resident within its area for tax purposes, big or small, except that in the City of London all liabilities arising on returns under Schedule E, except those assessable under Cases I and II of Schedule D, are dealt with by the four great Schedule E districts. The small, but highly important, City Schedule D districts are confined to that Schedule, although there is, of course, close association with the Schedule E staffs.

Whether it be large or small, the organisation of all the tax districts is uniform in type. The District Inspector has a general responsibility for everything; and it is for him to see that the work which falls to be done is done to time, and is of adequate quality. Provision is made for devolution of his supervisory duties, under prescribed conditions and for limited periods, to his Inspectors Assisting, who are, thereby, given to some extent that experience in administra-

tion which they will need if they are given charge of districts of their own. Apart from this, each such inspector will, normally, be responsible for a definite share of the assessment work as well as other duties. His main work, however—and sometimes this is the case with the District Inspector himself—will be in relation to the accounts supplied by or on behalf of taxpayers. Subject to the advice and ultimate control of the District Inspector, each Inspector Assisting deals with his own accounts cases and agrees the figures of liability.

Turning to the clerical side, the Senior Clerical Officer (S.C.O.), will, normally, be of Staff Officer grade and, except in the small special Schedule D districts of the City of London, his work will be mainly that of supervision. His powers and responsibilities are substantial. He is responsible to the District Inspector, or to the inspector deputising for him, for the whole of the clerical work. It is he who plans the allocation of duties and submits it to his chief. This allocation has to be varied at intervals so that each member of the clerical staff obtains, as far as practicable, all-round experience of the work appropriate to his grade. In fact, except where, from special reasons, the District Inspector finds it necessary to interfere, the S.C.O. has definite control of the time of each member of the clerical staff and assistance to the technical officers will be provided through him.

In addition to these general duties, he has others of importance; *inter alia*, no discharge order will be accepted by a collector unless it bears the impress of the special embossing stamp which has to be retained in the custody of the S.C.O., whilst, in the case of repayment claims, this officer issues passes and issues the receivable order cheques for amounts due within a fixed limit. In fine, it may be said that the efficiency or otherwise of a tax district depends in great measure upon the quality of the Senior Clerical Officer.

Under the S.C.O. there will be one or more Tax Officers (Higher Grade), each of whom will have his own "squad" of officers and be responsible for a definite section of the work. The S.C.O. will also, of course, control the routine staff, as well as the shorthand typists. Each member of the clerical staff is given the work appropriate to his grade—work which, except where he is a learner, he is supposed to be qualified to perform. Cases of officers habitually engaged on work superior to their grades would be likely to attract the attention of the Inland Revenue Staff Federation, their highly efficient trade union, which now embraces the whole of the clerical staffs.

A check on the performance of the main classes of work is provided, *inter alia*, by supervision and work records on forms specially printed for each year. The keeping of these is compulsory normally,

and, when completed, they will show that all steps necessary have been taken, and when.

The repayments section of the clerical staff is always important, and has an element of semi-independence. It is under the control of the Senior Claims Clerk, an officer whose grade will vary according to the size of the section. In view of the many millions of pounds repaid in each year, the greatest care is taken to eliminate the risk of fraud, particularly internal fraud. The rules laid down which govern the procedure upon a claim, from the time of its receipt to the posting of the repayment order, have been the result of thorough consideration; and every step in the prescribed procedure has to be taken meticulously. In the event of loss arising, and any laxity being proved, the consequences would be of the most serious character to the offender. Every officer, so long as he is engaged on this work, realises the danger.

Before passing to the subject of direct Head Office control, reference must be made to the important impersonal elements in the work of a tax district represented by the official instructions, and the uniform filing system, together with the "bring forward" diary associated with it. The former is represented by four substantial loose-leaf volumes—the inspector's manual and the administration, assessment and relief instructions. These form the basis of official practice, both in the districts and throughout the department within their limits, and their contents are indicated by their titles. Containing many thousands of separate paragraphs, continually being revised by a special section of Inspectors in collaboration with the Secretaries' office, and others specially interested in particular subjects, it is beyond the compass of any single brain to absorb the whole of their contents. This evil is largely overcome by the issue twice a year, with periodic supplements, of a great general index which is an amazingly efficient piece of work. To it every responsible officer turns first for guidance on any point of difficulty.

The uniform filing system, which, as its name indicates, is universal, is of the numerical type, the central idea being that every subject, e.g., balancing statements, furniture lists, etc., and every person and firm shall be represented by a separate file, with sub-files where necessary, for example, in the case of partners, and that all information of value shall be conspicuous. Division and classification are secured by the reservation of blocks of numbers. The files are duplicated in the repayments claim section with the necessary cross-references. Ready access—unless the file is out of place or in use, the two curses of most filing systems—is by means of index slips, one for each file, arranged alphabetically in loose-leaf binders. The "bring forward" diary, kept by the filing staff, is worked as part of the filing system, the general rule being that no case which is

working shall be off a diary. Supervision is required to ensure that missing files are traced and that cases requiring immediate attention are not marked to be brought forward at a future date. Efficient filing clerks mean a great deal to the smooth working of a district.

In law, the Local Commissioners are the foundation of our income-tax system; and to this fact is to be attributed the preservation of the limited autonomy which is, perhaps, the most characteristic feature of the tax district. But, at the back of the District Inspector, there are all the knowledge and resources of the Head Office, the great central organisation which has developed from the almost embryonic stage of 1906 indicated in the first paragraph of this article. Considerations of space preclude anything but a bare mention of the sections of the Chief Inspector's Office which most affect the work of the Districts, namely, claims, information, Dominion Income Tax, back duty, enquiry and establishments. The last, as one of its functions, controls the relief staff, technical and clerical. In addition, there are the sources of advice and information arising out of the "specialist" functions of Principal and Senior Principal Inspectors.

But, important as all these are, of greater importance to the District is its Inspecting Officer. Always of a grade higher than the District Inspector, the I.O., as he is called, is the main channel of communication with the Head Office; and it is he who is held responsible for the general efficiency of the districts in his area. But, upon the whole, his most important work, so far as the district is concerned, is his annual general inspection. In this exhaustive examination of the work and staff of each district, he is now assisted by a Staff Officer who, acting under his general direction, examines the work of the clerical staff and, in addition, makes his own gradings of individual merit and capacity. Space does not permit the description in detail of what a General Inspection entails; but there is a significant but apocryphal story of an Assistant Inspector who, when asked to define "relief," gave as his answer "departure of the I.O."

It is also impossible to describe in detail the complicated promotion system, which depends very largely upon the grading reports made on each officer after each general inspection. The forms provided for this purpose are of most elaborately detailed and, it might almost be said, pretentious character. The basic idea seems to be that there shall be so many opinions of superiors, reporting one after the other on the same case and on the same occasion, that the promoting authority will be able, by combining these with previous reports, to obtain the best possible estimates of relative merit and capacity. There is, however, a fairly general impression that in the official scales one defect, even if not radical, will outweigh many positive virtues. As a result,

reporting officers, irrespective of rank, in their desire to see a really good man get the recognition he deserves, let this fact colour the picture. There is, in consequence, a degree of insincerity in reports of this class, and also in those upon the "poor but honest" worker. The establishments section is, of course, fully aware of this, but is powerless to assess the excess. Some years ago, the writer was informed by an Establishments officer that 80 per cent. of the clerical staff reported on were placed "above average," whilst, in allusion to the importance of defects, a cynic once declared that the most successful type of civil servant was "full of good stuff, quite smooth and so shaped as to be able to squeeze through a small opening with a minimum of friction."

Principal and Senior Principal Inspectors, unless the former are in districts, have, in addition to their duties as Inspecting Officers, others which may be of even greater importance. Most of them will have charge of one or more special subjects, for example, life assurance, co-operative societies, partnership, etc. In this work there is a growing tendency to use the services of "devils," usually Higher Grade Inspectors of tested quality. Whether a "devil" works for one or more will depend upon the size of the special subject and other factors. These specialist Principal and Senior Principal Inspectors are not experts in the ordinary sense of the word. Whilst a subject like cotton will naturally be associated with a man concerned with the Manchester area, other subjects of relative unimportance will tend to go with a particular area for no special reason, with the result that a man may have charge of one subject to-day and of another to-morrow. This seeming absurdity is not quite so indefensible as might be imagined. Except in regard to the most technical of subjects, there is something to be said for the application of fresh minds, and, as a matter of practice, continuity is observed where thought to be desirable. Flexibility of mind is fairly general in the service; and the new specialist soon grasps the essentials. Nevertheless, the writer doubts whether the future will not show developments in the direction of real specialisation in the interests of the Revenue. Access to precedents is not always an adequate substitute for thorough knowledge of a subject.

What is, perhaps, the most important feature of the organisation of the Chief Inspector's branch still remains to be mentioned. The whole of the technical and clerical staffs, whether at Head Office or elsewhere, are completely interchangeable. Subject to the necessities of special work, a member of the "indoor staff" to-day may be transferred to the "outdoor staff" to-morrow; and it is a matter of deliberate policy that an officer, whether technical or clerical, shall not be divorced from district work for too long a period. Thus, the Inspecting Officer, unless he be of the highest grade, will be inspecting the work of lower-grade districts in one year, and,

in the next, may himself be in charge of a district, and, in turn, have his work inspected in like fashion. It is the same with the clerical staff. The effects of this policy are manifold and salutary. It restricts the growth of that jealousy which is so apt to arise between the indoor and outdoor staffs. It keeps the controlling staff at headquarters more fully informed on district problems. It preserves the elasticity of mind of men who would otherwise tend to get into ruts through too long employment on specialised work; and enables men who have distinguished themselves in their districts to be tried out in other directions; and, generally, facilitates, in theory, if not always in practice, the employment of each man's abilities to the best advantage. Lastly, it tends to make it more probable that Inspecting Officers and Staff Officers shall themselves have had fairly recent experience of district work. Except in the highest grades of all, the proved capacity to discharge efficiently the duties of a district is the most important qualification for advancement.

TAXATION NOTES

The Finance Act, 1939

In our June issue we drew attention to several clauses in the Finance Bill which in our opinion required amendment. The Act has now been passed, and it is appropriate to mention important amendments which were made in the course of the passage of the Bill.

Apportionments of Income under Section 21 of the Finance Act, 1922

We criticised the intention to make retrospective to 1936-37 Section 13 (referring to apportionments of income in relation to inter-connected companies). While the retroactive provision remains, we welcome the statement of the Attorney-General that there is no question of opening any assessment which was settled previous to March, 1938, though cases settled since March, 1938, may be reopened for prior years. In connection with Section 14, in the case of companies which have both estate and investment income, a revenue loss on the estate can now be set against investment income, before applying "automatic apportionment" to the latter.

A valuable amendment provides that automatic apportionment is not to apply in the case of any company if the Special Commissioners are satisfied that the company exists wholly or mainly for the purpose of carrying on a trade or for co-ordinating the administration of a group of two or more subsidiary trading companies. This was essential to protect holding companies, and also trading companies which might become technically investment companies owing to a fall in their trading profits. It would also cover a patent-holding company which services the patents held.

The original clause providing for automatic appor-

tionment prohibited any deductions from the income of the company. The Crown recognised that this was going much too far, and the clause was amended to allow the deduction of National Defence Contribution or any such sums disbursed as expenses of management as the Special Commissioners consider reasonable, having regard to the requirements of the company's business and, in the case of directors' fees or other payments for services, to the actual services rendered to the company.

Allowances for Expenses

We are pleased that the Crown have clarified the much-criticised clause 19, though we should have preferred the clarification to have appeared in the Section itself. The Treasury spokesman explained that the clause would be administered reasonably, and that the notice to be sent to employers would explain that:—

- (1) Any payments in respect of expenses which represent no more than the recoupment of, or provision for, expenses that were actually incurred by the employee in the performance of the duties of his employment need not be included in the return.
- (2) Where provision for expenses is made in accordance with a regular scale, any payments inside that scale need not be included in the return, provided that the employer will furnish to the Inspector of Taxes particulars of the scale and such other information as he may require as to the amounts paid in specified cases.
- (3) All other payments for expenses, and in particular all round-sum allowances in respect of expenses (other than advance payments made to the employee subject to his repaying to the employer any excess of the amount advanced over the actual expenses), must be included in the return, if the aggregate amount of the payment to the employee for the year exceeds £25.

While we have no doubt the Board of Inland Revenue will carry out the assurance, we would prefer that such matters were not left to departmental interpretation.

Armament Profits Duty

Many amendments were introduced in connection with armament profits duty; these will be considered in due course.

INCOME TAX—A SCOTTISH CASE

Earl Haig's War Diaries

The First Division of the Scottish Court of Session last month held that money received by the trustees through the publication of Mr. Duff Cooper's biography was not income assessable to income tax.

A determination by the Commissioner for the Special Purposes of Income Tax Acts had held that the sums received by the trustees for the use of, and for access to, the late Field-Marshal's diaries were assessable and assessments were raised for the years ended April 5, 1936 and April 5, 1937, on sums received by the

trustees. The trustees appealed and the appeal was sustained by the First Division.

The Lord President, who gave the leading opinion, said that the appeal raised a question of considerable interest, partly because the circumstances which gave rise to it seemed to be novel in income-tax law and partly because it concerned the war diaries of Earl Haig.

In 1933 Mr. Duff Cooper was preparing to write a life of Lord Haig and an agreement was made between him and the appellants (the trustees) under which all profits resulting from the book and from the sale of any rights connected with it were to be equally divided. After narrating further details of the agreement, Lord Normand said that the trustees treated the receipts as capital assets of the estate. They retained the property in the diaries, and it was intended that they should be preserved, probably in some public institution.

The case involved two questions: first, whether the receipts were profits and gains within the meaning of

the Income Tax Acts or, more briefly, whether they were income; and secondly, whether they were annual profits or gains.

The appellants contended, on the first question, that the transaction was simply a means of realising the capital value of an asset of the estate, and that there was no element of income or profit in the resulting receipts. The Inland Revenue argued that it was also a profit yielding transaction and that the proceeds were in the nature of income.

After discussing various aspects of these contentions the Lord President, after remarking that the unqualified sale of the publication rights was in the circumstances impossible, stated that he had come to the conclusion that the receipts were not profits or gains made by the appellants, but merely capital payments in return for the partial realisation of an asset, and that the appellants were not assessable to income tax in respect of the receipts.

The other judges concurred.

Recent Tax Cases

By F. HEYWORTH TALBOT and R. A. FURTADO, Barristers-at-Law

Profits of trade, Schedule D—Sum received for cancellation of a contract—Whether capital or income receipt.

The case of *Bush, Beach & Gent, Ltd. v. Road* (May 26, 1939; Tax Leaflet 1,019) raises again the question whether compensation for the termination of a contract is to be treated as a capital or income receipt for the purpose of Case I of Schedule D. The appellant company carries on business as a chemical merchant. Up to the year 1933 it dealt only in industrial chemicals, but in that year it entered into a contract for the purchase of agricultural chemicals. By the terms of the contract, the appellant company was entitled to sell these chemicals only in certain parts of the country, the suppliers undertaking to debar their other customers from selling the same chemicals in that area. For the purpose of the contract, the company set up a new sales organisation. In May, 1935, the contract was terminated by agreement, on payment to the appellant company of £4,750. The company was assessed to income tax for 1937-38 in a sum which included part of this £4,750, and on appeal it contended that the payment was a capital receipt, not to be included in its assessable profits. The company argued that the payment was compensation for the sterilisation of a capital asset, or for loss of the separate business it had set up of dealing in agricultural chemicals. The Court, however, dismissing the appeal, held that it represented the profit which the company would or might have earned under the contract, and was correctly included in computing the business profits. So far as it is possible to generalise from the numerous decisions on this point, it may be said that compensation for the cancellation of a contract entered into in the normal course of trading will

be a revenue receipt, while compensation for the sterilisation of a capital asset, or for the destruction of the foundation or framework of a business or part of a business, will be capital. In *Van den Berghs v. Clark* (19 T.C. 390), a payment received as compensation for the cancellation of a long-standing pooling agreement, which formed part of the framework of the business, was held to be capital. On the other hand, in *Short Bros. v. C.I.R.* (12 T.C. 955), a sum received by a firm of shipbuilders for cancellation of a contract to build two steamers was held to be a revenue receipt. In the present case, the Judge held that the termination of the contract did not affect the structure of the trade, since the company could still deal in agricultural chemicals if it chose to do so. The contract, although made in a new field, was made in the ordinary course of business, and accordingly the case was analogous to *Short Bros. v. C.I.R.*

Carry forward of losses—Change in partnership—Tax to be computed as if new trade had been commenced—Whether continuing partners entitled to carry forward loss sustained in old partnership.

In *Batty v. Baron Schroder* (May 25, 1939; Tax Leaflet 1,018), Lawrence, J., decided an important point in connection with a claim to carry forward losses sustained in a partnership business after a change had occurred in the partnership. Under section 33 of the Finance Act, 1926, where a person incurs a loss in any trade carried on in partnership, he may claim that it shall be carried forward and deducted from such part of the assessable profits of that trade for the following six years as the claimant would be required to include in a return of his total

income. Rule 11 (1) of Cases I and II of Schedule D (as amended by Finance Act, 1926, Section 32) provides that where a change occurs in a partnership, the tax payable after the change may, if the partners so require, be computed as if the trade had been discontinued at the date of the change, and a new trade had been set up. The respondent was a partner in a firm which, prior to 1932, had sustained a loss in its business. In 1932 a change took place in the constitution of the firm, and the partners exercised their option under Rule 11 (1) to have the tax computed as if a new trade had been set up. The respondent now claimed that his share in the loss sustained by the old firm should be carried forward and set off against his share in the assessable profits of the new firm for 1936-37. The Court, disallowing his claim, held that, since the partners had given notice requiring the tax to be computed as if a new trade had been set up, the loss sustained before the change could not be set off against the profits made after the change. It will be remembered that a similar point arose in *United Steel Companies v. Cullington*, noted in the April number of ACCOUNTANCY at page 252, where the persons claiming the carry-forward had succeeded to the business in which the loss had been sustained, and it was held that it was not entitled to a deduction under the Finance Act of 1926 in respect of the loss of its predecessor. The present decision accords with the past practice of the Revenue; it is not, of course, applicable where the partners choose to allow the profits of the business to be computed as if there had been no change. The decision, therefore, must be borne in mind whenever a change takes place, and the question arises whether the option given by Rule 11 (1) should be exercised.

Income tax—Relief in respect of income accumulated under a trust—Section 25—Whether income in fact accumulated.

The case of *J., S., & G. Cusden v. Eden* (April 21, 1939; Tax Leaflet 1,014) was an appeal against a decision of the General Commissioners refusing claims for repayment of tax presented by the appellants under Section 25 of the Income Tax Act, 1918, which deals with income which is accumulated under a will or settlement. A testator, who died in 1918, left property upon trust, after payment of an annuity, to accumulate the residue of the income for his children (the appellants) on their attaining the age of twenty-one. During the minority of the children the whole of the income had in fact been received by the children's mother, who was also the annuitant, and spent by her. The trust accounts showed that the residue of the trust income, after paying the annuity, was credited to an income accumulation account, and the mother was shown as a debtor on loan account in respect of the sums received by her in excess of her annuity. No interest was credited

or debited on these loans. When the youngest child attained twenty-one the mother drew a cheque in favour of the trustees for the total amount outstanding on the loan account. The trustees thereupon drew cheques in favour of the children, each for one-third of that amount, and they drew cheques for similar amounts in favour of the mother. The Judge held that the claims of the appellants were not allowable, as the income had not in fact been accumulated as required by the Section. It was stated by the Solicitor-General that the Crown do not, in such cases, require that the provisions of the will or settlement as to accumulation shall be strictly complied with, provided it appears that there has been some genuine accumulation. In this case the Judge held that there had not been any accumulation, as there was no prospect of the money ever being paid to the beneficiaries, and the accounts showed that it had not been lent at interest. The judgment does not state explicitly that in order for money to be accumulated it must be laid out at interest; nor, it appears, will the mere fact that accumulations of income have been lost or depreciated in itself defeat a claim under the Section. The decision was reached owing to the presence of all these features in the case.

Sur-tax—Privately controlled "investment company"—Appointment of undistributed income—Basis of apportionment—Finance Act, 1937, Section 14 (3).

In *C.I.R. v. Fred's Securities Company* (May 9, 1939; Tax Leaflet 1,015) the Court considered the correct method of apportioning the income of an "investment company" among its members for the purpose of Section 21 of the Finance Act, 1922. Section 14 (3) of the 1937 Finance Act provides that, in the case of an investment company, the Commissioners may attribute to each member an interest corresponding to his interest in the assets available for distribution among the members in the event of a winding-up. The company had an issued capital of nine "A" ordinary shares of £100 each (£900), 200 "B" ordinary shares of 10s. each (£100) and 690 £100 preference shares. In a winding-up the assets were to be applied first in repayment of the nominal value of the "A" and "B" ordinary shares *pari passu*, next in paying the "B" ordinary shareholders £400 for each 10s. share, after which the preference shareholders were entitled to repayment.

A direction was made on the company for 1936-37, in which year its investment income was £1,284, and the value of the net assets at the end of the year was £71,322. In apportioning the income to the members, the Commissioners calculated what proportion of the net assets each class of shareholders would have received on an immediate liquidation, and accordingly attributed 900/71,322 of £1,284 to the "A" ordinary shareholders, and the balance to the "B" ordinary shareholders. On an appeal against the apportionment the Special Commissioners decided

that it was made on a wrong basis, and that the interest of each member should be ascertained by treating the income to be apportioned as if it were the sole asset distributable among the members by a liquidator, and having regard to the priorities of the various classes of shareholders. They therefore apportioned £900 to the "A" ordinary shareholders, and the balance to the "B" ordinary shareholders. On the Crown's appeal against this decision, the Court held that the Special Commissioners' method was wrong, and the original apportionment was correct. It is now clear that the right method to be adopted in applying Section 14 (3) is to ascertain what proportion of the total net assets would be payable to each shareholder in the event of a winding-up, and to attribute the same proportion of the income to that shareholder.

Schedule B—Lands used for growing vegetables—Whether "gardens for the sale of produce" within Schedule B, Rule 8.

The decision in *Kerr v. Davies* (May 26, 1939; Tax Leaflet 1,020) will be of interest to accountants having market gardeners as clients. Under Rule 5 of Schedule B, a person occupying land for the purpose of husbandry may elect to be assessed under Schedule D; under Rule 8, however, the profits arising from lands occupied as nurseries or gardens for the sale of produce (other than lands used for the growth of hops) are to be estimated according to Schedule D, and in this case the taxpayer has no option to have the profits estimated on the arbitrary basis of Schedule B. In the present case, the Crown claimed that the respondent's farm was occupied as a garden within Rule 8, and made an assessment according to the rules of Schedule D. The farm comprised 128 acres of large open fields; 3 acres were used for growing horse feed, 1½ were woodland, and the remainder were used for growing potatoes, cabbages, cauliflower and other vegetables. The respondent largely marketed his produce at his own stall in Covent Garden. The cost of labour was about £20 per acre, and the yearly expenditure on manure was about £1,600. The General Commissioners decided that the farm was not a garden within Rule 8, having regard to the method of cultivation which was general in the locality. The Crown appealed, but the Court upheld the Commissioners' decision, holding that there was evidence upon which they might come to that conclusion, and that they were entitled to rely on the method of cultivation. The judgment is unfortunately brief, and it is not clear whether the Judge considered that, in deciding whether a particular piece of land was occupied as a garden, the Commissioners are entitled to consider what methods of cultivation are adopted by other farmers in the locality. The question whether land is occupied as a garden or nursery is a question of fact, and the Commissioners' finding will not be disturbed unless

it can be shown that there was no evidence to justify it. For this reason, the reported decisions on the subject often seem curious and are difficult to reconcile.

IN PARLIAMENT

INCOME TAX—CONTRIBUTORY PENSIONS

Mr. Tinker asked the Chancellor of the Exchequer whether, in view of the fact that compulsory contributors under the Widows', Orphans' and Old Age Contributory Pensions Act are exempt from income tax, he will state on what ground the contributions of a voluntary contributor are not so exempt?

Sir J. Simon: Relief from income tax in respect of compulsory contributions under the Widows', Orphans' and Old Age Contributory Pensions Acts is allowed under provisions of the income-tax law which authorises relief in respect of certain payments which a person is liable to make under an Act of Parliament for securing a pension for himself or for his widow or children. The condition of allowance of this relief is not satisfied in the case of a voluntary contributor, and there is no provision of the law under which relief can be allowed in respect of such a person's contributions.

Mr. Tinker: Will the Chancellor consider the aspect of the matter that I have put to him in regard to life insurance premiums, and see if something cannot be done in these cases?

Sir J. Simon: I will gladly consider the point that the hon. Member has raised, but I think he will find, for reasons that are rather complicated, that really these voluntary contributions are a provision for a deferred annuity.

INCOME TAX—FINES PAID BY BOOKMAKERS

Mr. Viant asked the Chancellor of the Exchequer whether his attention has been directed to the decision of the Commissioners of Income Tax that in future bookmakers, whose runners are found guilty and fined, may deduct such fines as expenses for the purposes of income-tax assessment; and is it his intention to alter this anomaly in the near future by regulation or otherwise?

Sir J. Simon: I assume that the decision referred to is one given by General Commissioners of Taxes on a particular appeal, to the effect that in the computation of the profits of a street bookmaker for assessment to income tax under Schedule D sums paid by him to his runners in reimbursement of fines imposed upon them were deductible expenses, as being payments made wholly and exclusively for the purposes of the bookmaker's business. I do not find in the decision any reason for proposing an alteration of the relevant rule of the Income Tax Acts, which is of general application in the computation of profits of trades and business for Schedule D purposes.

Mr. Sorensen: Can the right hon. Gentleman say how much he is losing by this decision?

Sir J. Simon: No, I could not say.

Mr. Crossley: Why not legalise bookmakers?

Mr. Viant: Will it be in order for a motorist who is penalised, say, for obstruction of the highway, to adopt a similar principle?

Sir J. Simon: I think he would have to show that the outlay was "wholly and exclusively for the purposes of his business."

Legal Notes

COMPANY LAW

Articles of Association—Rotation and Retirement of Directors—Two Directors.

A company's Articles usually provide fully for the rotation and retirement of directors. Thus Article 73 in Table A of the Companies Act, 1929, states: "At the first ordinary general meeting of the company the whole of the directors shall retire from office, and at the ordinary general meeting in every subsequent year one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number that is nearest one-third shall retire from office." *In re David Moseley & Sons, Ltd.-Moseley v. The Company* (55 T.L.R. 777), Simonds, J., decided a curious point for which there was no previous authority. He had to construe Article 94 of the Company's Articles of Association, which was in common form and in the following words: "At the ordinary general meeting to be held in 1904 and at every succeeding ordinary general meeting one-third of the directors (other than the governing directors and managing director or directors) or if their number is not a multiple of three then the number nearest to but not exceeding one-third, shall retire from office." (It will be noted that in Article 73 of Table A, the words "not exceeding one-third" do not appear.) It was also provided that those to retire in 1904 should be determined by lot and thereafter those who had been longest in office should retire. At the time of the summons there were only two ordinary directors, the other directors being governing or managing directors to whom Article 94 did not apply. The plaintiff contended that on the construction of the Articles no director was bound to retire at the next annual general meeting. The Judge pointed out that in *Palmer's Company Precedents* in all editions prior to 1938 the form of Article was similar to that of the company and no provision had been made for the difficulty created in this case; but in the 1938 edition the proviso was: "Provided always that if in any year the number of directors who are subject to retirement by rotation shall be two, one of such directors shall retire." It appeared therefore that between the preceding edition and the 1938 edition the doubt to be resolved in this case had occurred to the editor of *Palmer*. The plaintiff's contention was that where there were only two directors the Article could not apply, because one could not speak of one-third of two directors; nor was the alternative head of the article applicable, because the number of directors was not a multiple of three and there was no number which did not exceed one-third, as one was more than one-third of two. Therefore no number could be found which was nearest to, but did not exceed, one-third of two.

It was argued by the company that the words "not exceeding one-third" could be ignored where the number of directors was only two and that the purpose of Article 94 was to provide for the rotation of the directors and the retirement of one or more. After some hesitation, the Judge came to the conclusion that there were only two directors, the condition of Article 94 was not satisfied. It might well be that the general intention of the particular article was not satisfied, but if that were so, the Articles would have to be altered to give effect to what might have been the company's intention. Therefore, the Judge held, the plaintiff did not retire from office by rotation at the next annual general meeting.

INSOLVENCY

Bankruptcy—Accountant elected by Creditors—Objection by Board of Trade under Bankruptcy Act, 1914, Section 19.

One of the grounds on which the Board of Trade may object to the appointment of a trustee in bankruptcy under the Bankruptcy Act, 1914, Section 19, is "that his connection with or relation to the bankrupt or his estate, or any particular creditor, makes it difficult for him to act with impartiality in the interests of the creditors generally." The Section further provides that on the request of a majority in value of the creditors the board shall notify the objection to the High Court for a decision on its validity.

In re Beale, R. G. F. Ex parte the Board of Trade (1939, W.N. 232), Farwell, J. held that in making such a decision under the Act, the Court cannot consider whether in all the circumstances it is desirable that the person appointed trustee should be confirmed in the appointment, but that the Court's function is confined to deciding whether or not the proposed trustee is a person whose relationship to the bankrupt or to any particular creditor would tend to affect his impartiality. If the Board establishes that the person proposed stands in that relationship to the debtor, the Court is bound to uphold the Board's objection, and cannot enquire whether in all the circumstances it might be best to allow that person to act. The facts were:—The debtor, against whom there had been no previous act of bankruptcy, entered a bankruptcy petition against himself whereupon he was adjudged bankrupt on December 30, 1928. In January, 1939, the first meeting of creditors was held and it was resolved that G. M. Symons, an accountant, should be appointed the trustee in bankruptcy. For many years the firm of which Mr. Symons was a member had acted as accountants

for the debtor and during the year 1938 had received various sums from him and on his behalf and had made payments on his behalf. The disbursement included two items described as "Messrs. Symons on account of fees." The firm also submitted a proof of debt in bankruptcy for £112 for professional services rendered by them to the debtor between April, 1937, and December, 1938. In March, 1939, the Board of Trade objected to the appointment of Mr. Symons as trustee on the ground that his connection with the bankrupt made it difficult for him to act with impartiality in the interests of the creditors generally. In upholding the objection of the Board of Trade, the Judge said that there was no reflection on the gentleman elected. It would, however, be his duty to investigate his firm's cash account and the proof put in by them, and that would make it difficult for him to act impartially. The Court had not to decide whether he would in fact be impartial, but whether it would be difficult for him to act impartially. He was in the position of being an accounting party and the Board of Trade had satisfied the Court that they had proper grounds for their objection.

EXECUTORSHIP LAW AND TRUSTS

Covenant in Deed of Separation not to revoke provisions in husband's Will—Wife's death and husband's re-marriage—Wills Act, 1837, Sections 18 and 20.

Section 18 of the Wills Act, 1837, provides that a will is revoked by the marriage of a testator or testatrix. In *re Marsland, Lloyds Bank, Ltd. v. Marsland* (1939, 3 All. E.R. 148) the Court of Appeal had to decide whether or not a covenant in a separation deed not to revoke or alter an existing will amounted to a covenant not to re-marry. It decided that it did not, and that the revocation covenanted against did not include revocation by law, but was confined to deliberate acts of revocation within Section 20 of the Wills Act, 1837. Farwell, J., had previously held that, assuming that the covenant on its true construction was broken by the second marriage of the testator, it was void as being against public policy, inasmuch as it was in effect a covenant not to revoke a will by subsequent marriage.

The facts were: In 1902 the testator and his wife entered into a deed of separation. There were then two children of the marriage, aged respectively 12 and 7 years. Immediately before executing the deed the testator had made a will giving one-half of his estate to trustees upon trust for the wife and the two children of the marriage. The separation deed recited that a suit for judicial separation was pending and also the execution of the will and its provisions and contained a covenant that the testator would not revoke his will or alter it so far as regards the gift to his wife and children. In 1908 the testator's first wife died and in 1935 the testator

re-married. The re-marriage automatically revoked his will by virtue of Section 18 of the Wills Act, 1837. The testator then made a new will which gave smaller gifts to the two children of the first marriage than those previously given them. It was contended that the testator had broken the covenant by re-marrying. The Master of the Rolls, delivering the unanimous judgment of the Court of Appeal, said there was no precise authority on the meaning of a covenant not to revoke, but in principle there was no difference between such a covenant and a covenant not to assign. The Courts had always construed a covenant against assignment as prohibiting merely an actual assignment but not an assignment by operation of law. The circumstances of the present case were distinguishable from a case where the covenantor had promised not to do or commit any act, deed, matter or thing by means whereof the said will to be made by him should be revoked, annulled, cancelled or affected in any manner whatsoever. Such a covenant would clearly have been broken by the re-marriage of the covenantor. But a covenant not to revoke did not extend to cases of automatic revocation as a matter of law. It was thus not necessary to determine the question of public policy, but the decision of Farwell, J. was affirmed on a different and more general ground.

Will—Construction of the words "on condition that she adopts my daughter A. E."—Not a legal "condition," but a bequest on trust.

In *re Frame, Edwards v. Taylor*, (1939, 2 All E.R., 865) the testator bequeathed to a legatee "all my money and insurance policies on condition that she adopts my daughter A.E. and also gives to my daughters J.E. and M.A.E. the sum of £5 each and a like sum of £5 to my son A.E." The legatee had duly applied to the County Court for an Adoption Order under the Adoption of Children Act, 1926, but the Order was refused on the opposition by the child concerned and by some of her brothers and sisters. The legatee was the licensee of a public-house and the child objected to living there. It was argued that the words in the will above quoted created either a condition subsequent or a condition precedent. Simonds, J., decided, however, that in the strict legal sense the words did not amount to a condition at all, but that there was a gift to the legatee on trust to make proper provision for the maintenance of the child as her adopted daughter and that that trust was enforceable, and if necessary an enquiry could be directed in that regard. The gift to Mrs. Taylor was conditional only in the sense of "on the terms" or "on the trust" that she did certain things and that interpretation became clearer from the fact that the condition related not only to the adoption of one daughter but also to the payment of certain sums to other daughters.

MISCELLANEOUS

Restraint of trade—Covenant by Solicitor's Articled Clerk not to practise within 15 miles of place of employment during employee's whole life—Covenant unenforceable.

A practising accountant who wishes to obtain reasonable protection for his practice in relation either to one who sells him a practice or to his own clerks, must exercise the greatest care that the terms of the covenant are not wider than are necessary to afford only reasonable protection; otherwise the covenant will be unenforceable. The leading cases are sometimes difficult to reconcile. Each case must be adjudged according to its own circumstances, but the onus of proof of reasonableness is upon the covenantee because *prima facie* all covenants in restraint of trade are void as against public policy.

In the recent case of *Dickson v. Jones* (1939, 3 All E.R. 182) it was held that a covenant by a solicitor's clerk not to practise within a radius of 15 miles from Hanley Town Hall during the whole of his life was in the circumstances wider than was necessary for the plaintiff's protection, and was therefore unenforceable as being in undue restraint of trade. Farwell, J., stated that in the case of a man who had attained an important position in the office and who came into contact with clients, some protection was almost always necessary and *prima facie* a covenant by a solicitor's clerk of such standing was a reasonable and proper protection; but though such a covenant was justified for the purpose of protecting the plaintiff's practice, it was not justified if it was intended to and in fact restricted competition. An employee could not be asked to restrict himself against engaging in honest competition, but he could be restrained from making use of knowledge acquired by him in the plaintiff's practice in order to take away his goodwill. But the combination of a restriction over so wide an area and a restriction extending over the whole life of the employee was going very far beyond anything reasonably necessary for the plaintiff's protection. Therefore the covenant could not be enforced. This decision should be compared with that in *Fitch v. Dewes* (1921, 2 A.C. 158) where the House of Lords enforced a covenant where the facts were very similar to those in the present case and a solicitor's clerk had covenanted not to practise within seven miles of Tamworth Town Hall during the whole of his life. Accountants will also remember the case of *D. Bates & Co. v. Dale* (1937, 3 All E.R. 650). There an unqualified accountant sold his practice to a firm of Incorporated Accountants in the Potteries and covenanted not to practise or be employed as an accountant within 15 miles from Leek Town Hall for a period of 15 years; but it was held that in the circumstances the covenant was too wide and therefore unenforceable.

LETTERS TO THE EDITOR

To the Editor of ACCOUNTANCY

Comparative Figures in Balance Sheets

SIR,—I read with much interest the letter in your issue for July on "Comparative Figures in Balance Sheets."

It seems that the auditor's certificate made in respect of "the above balance sheet dated 30th June, 1939," can only, from the very wording, refer to the current balance sheet. As far as the comparative figures are concerned, the presumption is that they have already been certified by the previous auditor and are merely set out on the published accounts for memorandum purposes.

Naturally the auditor should satisfy himself that the comparative figures are accurately copied from the last certified balance sheet and that they were properly certified by the former auditor.

Yours faithfully,

N. J. L. BROWN.

Bristol.

July 4, 1939.

DEAR SIR,—I was very interested in the letter of Mr. F. A. Simpson published in the July issue of ACCOUNTANCY. Before passing any opinions on the queries I would respectfully draw Mr. Simpson's attention to the fact that the auditor does not certify the balance sheet, but reports thereon under Section 134 of the Companies Act, 1929.

"The balance sheet of X Ltd., dated June 30, 1939," appears to be fairly conclusive evidence that the report applies to the balance sheet at that date only. The comparative figures are not an essential part of the balance sheet, and are placed there for the convenience of the shareholder.

If the accounts have been audited by a firm of professional accountants or a firm of "good standing," then it appears as though it would not be necessary for the auditor to go over the work of his predecessor. But it is essential for him to check the opening entries in the books with the balance sheet, and if any errors are found, then it is the duty of the auditor to mention this in his report. No doubt before this was done the auditor would discuss this matter with his predecessor.

In the case of qualified reports by the late auditor it is essential for the auditor to ascertain whether the points of qualification have been corrected, and, if not, then it appears as though it is his duty to "go behind the scenes" and report accordingly. If any errors of principle are discovered during the audit which will have an effect on the previous year's accounts, then this must be mentioned in the report.

The Companies Act is silent on this matter, but it may be said that if the auditor is certain that his predecessor has been negligent in the performance of his duties, then he must report this to the directors and members of the company.

This reply has been confined to companies which are registered under the Companies Acts, but in the case of the sole trader or partnership, the auditor should obtain written instructions from his client(s) of the

amount of work which has to be done, and these should cover the point as to whether he has to examine the work of his predecessor.—Yours faithfully,

J. I. FORSTER.

Workington.

July 18.

"Re-Planning the Coal Industry."

SIR,—The editorial note under the above title in your July issue hardly does justice, if you will allow me to say so, to the facts of the situation.

The note observes that "the coal-owners continue to put through a few amalgamations of a very restricted scope at a snail's pace." In fact, a perusal of the Coal Commission's memorandum reveals how far the process of voluntary amalgamation has already been carried. For example, a single concern now produces 78 per cent. of the output in Ayrshire; four groups are responsible for over 70 per cent. of that of Northumberland (described by the Commission as a district "in a fairly advanced state of integration"); and in South Wales (where, to quote the Commission again, "it is clear that consolidation has gone a very long way") 90 per cent. of the output of bituminous coal is produced by 11 undertakings and 60 per cent. of the anthracite by one company. The position in other districts is substantially similar.

But the Commission frankly admits that there are pits which it would be uneconomic to include in amalgamations because of their age, and others that are unsuitable because of their financial position. The Commission speaks of the strong "theoretical case" for complete unification in one particular district; but adds that for practical reasons it recommends something much less comprehensive. And here I may perhaps emphasise that it is precisely for very practical reasons that the coal industry has always been sceptical about purely theoretical cases.

In fact, the more closely the memorandum is examined, the more apparent does it become that the Commission itself is becoming increasingly aware of the practical difficulties involved—difficulties which are inherent in the nature of the industry, and which do not arise, as your note rather implies, from an obstructive habit of mind in the coal owners.

Nor should it be assumed that amalgamations are necessarily good things, tending inevitably towards efficiency and economy; and that the larger the amalgamations the better. It would be easy to cite a number of amalgamations, in various industries, which have been neither efficient nor successful, and which have brought disaster to their shareholders—as many of your readers will doubtless recall.

Finally, there are two points that are generally lost sight of in discussions on amalgamations in the coal industry. The first is that as a result of voluntary amalgamations and closures of mines 80 per cent. of the total output of the country is produced by as few as 131 undertakings, and that the remaining number of undertakings consist of a larger part of what are officially classified as "small mines," that is to say that they employ less than 30 men underground—many such mines being actually owned by the men who work in them. The second is that if coal is to be worked and not lost to the country it must be mined where it lies; you cannot transfer the operation to some other part

of the country on grounds of efficiency or economy, as you can in the case of manufactured articles.

London.

Yours faithfully,

July 17.

PHILIP GEE.

[Mr. Gee gives the extreme opinion of the coalowners on the question of amalgamations. Evidence accumulated by one Royal Commission or Government Inquiry after another refutes the view, however, that consolidation in the industry cannot with advantage be carried considerably further. Nor is that view supported by an argument which places stress on limited amalgamations effected in some of the many coal-producing districts of the country. The policy of amalgamations is laid down by Statute and the memorandum of the Coal Commission referred to in our note was a very careful and reasonable analysis of the possibilities of furthering this policy in the various areas. Moreover, the memorandum was itself based on the obvious truth that the process can economically be carried further in some districts than in others. The very instances quoted by Mr. Gee in his second paragraph are taken by the Commission as cases where unification can be extended with advantage.—Editor, ACCOUNTANCY.]

APPOINTMENT OF FIRST AUDITORS AND NOTICE

We have received the following query from "Arcadia." Readers' replies are welcomed:—

The directors of a company in India have appointed first auditors, "A and Company," under Section 144 (7) of the Indian Companies Act. These auditors have not been removed before the first annual general meeting. At that meeting the shareholders desire to appoint "B and Company" as auditors for the next year. It is desired to know whether notice under Section 144 (6) to "A and Company," i.e., for their removal at the first annual general meeting, is necessary or not?

The relevant Section 144, clauses (3), (6), (7) and (8) of the Indian Companies Act regarding the appointment of auditors run as follows:—

- (3) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.
- (6) A person, other than a retiring auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice of an intention to nominate that person to the office of auditor has been given by a member of the company to the company not less than fourteen days before such annual general meeting, and the company shall send a copy of such notice to the retiring auditor, and shall give notice thereof to its members either by advertisement or in any other mode allowed by the articles not less than seven days before the annual general meeting;

Provided that, if after notice of the intention to nominate an auditor has been given to the company, an annual general meeting is called for a date fourteen days or less after the notice has been given, the requirements of this Section as to time in respect of such a notice shall be deemed to have been satisfied, and the notice to be sent or given by the company may, instead of being sent or given within the time required by this Section, be sent or given at the same time as the notice of the annual general meeting.

- (7) The first auditors of the company may be appointed by the directors before the statutory meeting, and if so appointed shall hold office until the first annual general meeting, unless previously removed by a resolution of the members of the company in general meeting, in which case such members at that meeting may appoint auditors.
- (8) The directors may fill any casual vacancy in the office of auditor, but while any such vacancy continues, the surviving or continuing auditor or auditors (if any) may act.

MUNICIPAL ACCOUNTS

Planning in Local Government *

Local authorities in England received on May 6, 1938, a circular from the Ministry of Health directing the attention of the authorities to certain considerations of importance in relation to prospective works involving capital expenditure. It reiterates the need for making a survey of their probable commitments for at least five years ahead and states that the Minister has done this before. And so the five years from April 1, 1938, are chosen as the years for the plan. In Scotland, too, in 1938 the local authorities pressed on the Secretary of State the need for a scheme of the kind, and it is understood something is being done.

Planning, then, in local government is really to be for five years so far as capital expenditure is concerned, and, while this is probably as good a period as any other, it seems worth while trying to synchronise the period with other five-year periods in local government finance, the Exchequer Grant quinquennium, for instance. Then had we not a five-year plan for roads and a five-year plan for housing? The dates of commencement of all these different plans should, it seems, be brought into line if real progress is to be made.

So long as there is a view that public works can economically be undertaken during periods of depression and that there should be an easing off in these contracts during periods of boom, then a strong *prima facie* case for planning exists. But this case should be clearly stated and the difficulties and limitations of it recognised. The trouble is, however, to decide when a boom is on. The depression is not quite so difficult to discover, as we all know eventually.

Apart from alternating slumps and booms, the national finances, looked at from the broad general point of view, may in themselves demand the existence of a plan, and it may be that a tendency towards a continually rising budget in relation to a stable or decreasing national income may force upon those in authority the recognition of the need for order, if progress is to be made at all. Then again, apart altogether from the condition of the national finances as a whole, it may be that necessarily the direction of Government expenditure may require to be modified. In recent days we have had evidence of this in connection with the new concentration upon the needs of rearmament.

There are many other considerations to be taken into account when we consider the position locally.

Local authorities, particularly since 1929, have been faced with a narrowed basis of rating. It would be unreasonable to complain too much about this. There is and has been a certain amount of compensation given for the derating that took place in 1929. But, taken in conjunction with the greatly added burdens which have been laid upon the localities since that year, it seems to me that there is ground for considerable fear. Local authorities have become more and more the agents of the Government. Their burdens have increased, and the source of their revenues has been narrowed in a most disastrous fashion. These effects make it all the more necessary for local authorities to plan their way ahead. Again, it may be that the locality, as opposed to the nation, is enjoying abnormal employment conditions. In these circumstances, local interests would be exactly the reverse of those of the State, and should be allowed for accordingly.

We may consider what ought to be the characteristics of a good plan. It should be broad, flexible, and non-committal. It should be indicative merely, while being to a certain extent objective. It should neither represent a gospel of faith nor should it be merely the expression of a hope. It should be balanced, reasonable, restrained rather than swollen; co-ordinated and in proportion rather than lop-sided. Bearing these principles in mind, one finds oneself in considerable agreement with the Minister of Health when he says that there is need for a co-ordinating committee, and it is to his credit that he directs attention to the finance committee as the convenient medium for carrying out the co-ordination. The finance committee should see the proposals as a whole and should recognise that five years is an incident of time and not the whole of it. There is no doubt a great deal in what is said by those who believe that the preparation of plans merely represents temptations to spend, and it is the duty of the finance committee, as I say, to recognise that we are not planning for eternity, as so many people seem to think, but for five short years.

One of the principal difficulties rises from the interaction of State and local authority activities. I wonder if anybody appreciates what the effect of State control is over the localities. England, we know, is the place where State control is carried to a much greater extent than it is in Scotland, and the fashion is—I am bound to say I am sorry to see it—for Scotland to follow England. It seems to me that nothing will contribute more to better progress than the maintenance of independent local authori-

* A summary of the Presidential address given by Mr. J. D. Imrie, M.A., F.I.M.T.A., F.S.A.A., President of the Institute of Municipal Treasurers, at the Annual Conference held recently in Edinburgh.

ties. The elected representatives of the people who, after all, represent the local authorities, are unpaid; they have no interest other than the good of the city, town or county which they serve, and they appreciate local conditions. Well, as I say, let us look at England and take an example of State control. The Scottish debt per head is much less heavy than the debt per head in England. It would seem, therefore, that there is nothing peculiarly effective in the State control of borrowing which applies in England. Scottish local authorities are not controlled nearly to the same extent. In fact, they carry out the incurring of expenditure and the borrowing for it on the rating side, in most cases without the intervention of the central department at all.

It may be argued, of course, that the relative positions are not the result of State control, but simply of the fact that Scottish rating is on a broader basis. The fact that owners and occupiers are rated may enable the authorities to meet from ordinary revenue a greater proportion of expenditure which normally finds its way into the capital accounts of English local authorities and is borrowed.

It may be urged that Scottish local authorities are much more cautious than English authorities and have not gone into speculative ventures such as aerodromes, which in some cases, I understand, have been provided in duplicate. The history of aerodromes need not detain us, except that it is worth while pointing out that here the history of civil aviation shows up the need for planning in a most striking fashion. Surely no local authority representative will urge that the present position, which has resulted in a few enthusiastic authorities pioneering the way without any national plan, is satisfactory.

Whatever happens, it is true to say that any local plan may suffer from the interruptions of national policy. More and more, Parliament seems to regard the local authorities as mere agencies to be directed by them along the channels that seem to be popular for the time being. Indeed, just look at the matter carefully and take the five years from 1932 to 1937. Look at the legislation which, affecting local authorities, has been passed during that period.

Taking the list of such legislation, can anyone say that it would have been possible for the local authorities to prepare a plan which would reasonably have reflected local activities? When we remember in addition the multiplicity of official circulars which have been issued during the period, all of which call for action on the administrative side, one almost despairs of the possibility of planning. It seems absolutely necessary that planning be synchronised both as to time and as to authorities. National policy should be determined in consonance with local policy, and there should be undertakings from the responsible departments that plans, once

approved, will not be lightly altered simply because it seems necessary to issue a series of circulars. All I have been saying stresses the fact that local authority planning is difficult because of the interruptions that the local authorities incur, first of all from Parliament through the statutes they pass, secondly through orders made by departments under the Acts, and thirdly from the numerous circulars which are issued.

Anything I have stressed has been done with the object of improving relationships between central and local authorities. Constant consultation between the centre and the perimeter, the establishment of advisory committees which function regularly and effectively and which are not composed of people who are prepared to echo the notions of departments, but who will give independent advice, will do much to avoid planning dislocation. Apart from all these things, however, planning is bound to suffer from a change of Government. A change is made simply because the country does not approve of the policy pursued by the Government in power, and again, similar changes in local government will also interrupt a plan. It is probably too much to ask in a democracy that a plan should not be interrupted owing to a change in Government until the planning period has expired.

The secondary problems which planning raises are, on the whole, difficult. A plan can only be an index, but it raises many questions. You must plan in relation to your income: you may not make bricks without straw. How, then, is the straw to be provided? The President of the Institute asked that question last year. He did not indicate how it was to be done. Mr. Arthur Greenwood thought that a tax on land values might be used in the interest of the local authorities. Mr. Greenwood was not in favour generally of assigned revenues, but he thought that the revenues from such a tax could with advantage be appropriated for local authority use. However attractive that proposition may be as a political gambit, it does not appeal to me as a practical solution. I feel that I want something which has a better chance of being accepted, and accordingly I am on the side of those people who wish to rate derated industries in full during prosperous years. There are some industries, we need not name them, that are prosperous all the time. They never should have been derated. That was surely a mistake, and I think local authorities should be entitled to bring into charge those industries which are certified by the Commissioners of Inland Revenue as having reasonable margins of profit. Ratepayers as a rule recognise no prosperous years! Subject to that qualification, however, the proposition I make does not seem insuperable.

One need not visualise this additional source of revenue as being utilisable year by year. The

reasonable thing to do would probably be to pay the revenue so obtained into a fund which would be utilisable only when unemployment in an area exceeded a certain figure, and would be used to finance public works. There are no evils in public works if these public works are constructed out of moneys already saved to defray their cost, and the effect of such a proposal would be that these public works funds, accrued in the way suggested, would be available at different times in different areas according to the pressure of unemployment. Local authorities could then plan much more easily, because they would not have to take into account to the same extent the effect of undue depressions. A fund would have been built up. It is true that years might require to pass before such a fund could reach adequate proportions, but, as I said before, the test for democracy is to what extent it will endure prolonged self-denial, and not the temporary self-denial that we have seen willingly indulged in during short and temporary periods of crises. Proper planning will only emerge if the relationships between the centre and the locality are clean cut and decisive.

A technique has been evolved which is getting more and more perfect. Parliament passes a statute, this or that Ministry being responsible for the carrying out of the particular law. The Minister from the centre then proceeds to make regulations which enjoin upon the local authorities the duty of making schemes. Then the great Elizabethan theory of uniformity is brought into play. Local authorities with enthusiasm, once having sent in schemes which seem to them to be very applicable to the conditions in their own area, find themselves delayed by the centre, waiting to see whether it is possible to issue a uniform skeleton applicable to the whole country which must be adhered to, and so no complete schemes are prepared for long enough. The enthusiasm of local authorities is damped, and when schemes are followed by financial regulations which in their conclusion indicate that the decision of the Minister shall always be final, then it cannot be assumed that conditions exist for that basis of friendship and co-operation which it is necessary to achieve if the best interests of good government in this country are to be kept in mind. The Minister's decision should not be final. The Minister is an interested individual. He is interested in protecting his department against all costs. Grant regulations, it is true, lie before Parliament for so many days and may be objected to, but the Minister's decision does not lie before Parliament, and local authorities have good reason to point out that in any scheme of mutual co-operation some independent tribunal should be established for the determination of the position.

It is necessary for local authorities to organise more and more effectively. Their efficiency will

only be recognised in so far as they can achieve complete co-operation, and when one remembers that under the Act which established the Unemployment Assistance Board a tribunal was set up to which local authorities could refer cases and to which appeals could be made, there seems to be no good case for refusing to recognise a tribunal to which financial disputes between the State and local authorities could be referred. The Commissioners for Inland Revenue from time to time are faced with local authorities in the courts, and I am bound to say from long knowledge of Inland Revenue practice and the local authorities' attitude thereto, that the utmost satisfaction is derived by local authorities from the present system. One of the defences of the departments with regard to the regulation that the Minister's decision shall be final is that they are dealing with public money when they disburse the Exchequer contributions. They forget, however, that rates are also public money, and it is this lack of desire to see further than the limits of the department which they control which causes most difficulty. When the local authorities understand that they can go to an independent tribunal, then and then only will they feel confident in planning not only their capital expenditure but indeed the whole of the development of the areas which they control for the betterment of the public good and for the welfare of the people whom they serve.

THE SOCIETY'S LIBRARY

To improve the library service for the benefit of Incorporated Accountants and students in all parts of Great Britain and Ireland, some important changes have been made in the regulations of the library at Incorporated Accountants' Hall. The period for which books are issued has been increased from 14 days to one calendar month, and on application before the end of this period an extension may be granted for a further month, if no other request has been made for the book. The practice of closing the library for stocktaking in August is discontinued. Books may now be sent by post to members and students out of London, but it is requested that application be made in the first instance to the library of the appropriate Branch or District Society.

When no suitable book on a subject is available, references can often be supplied to articles in periodicals. A card index of the more important items is kept in the library.

Books not in the Society's library can often be obtained for members through the National Central Library, the Management Library and the Association of Special Libraries and Information Bureaux.

A note regarding the new catalogue of the library appears on page 433 of this issue of ACCOUNTANCY.

FINANCE

The Month in the City

Attenuated Markets

In a not very eventful month the most arresting feature in the behaviour of security markets has been their insensitivity to all save political influences. The ordinary investor having long since resolved simply to hold what he has and hope for the best is tempted neither to buy nor to sell by minor fluctuations around a generally low level of prices. Economic factors of the greatest moment for the investment outlook thus tend to go disregarded. On occasions, to be sure, the very narrowness of markets is itself responsible for jerky and disproportionate price movements on a minimum of business. But for the most part the impact even of politics is no longer to be seen in price fluctuations so much as in the deadening of market response, on account of bewilderment and apathy, to factors which in normal circumstances there would at least be some attempt to discount. Actual movements over the past month have been as small as the volume of turnover. By the early days of July the whole of the gains due to the political exuberance of May had been finally lost. The disturbing rumours about Danzig, the difficult position in the Far East and the continued absence of a pact with Russia conspired to send down the ordinary share index from 78.8 on June 26 to 76.4 on July 3. Thereafter there was a creeping recovery to 79.5 on July 25, though President Roosevelt's abandonment of his attempts to amend the neutrality legislation, and the pessimistic views of the European outlook by which those efforts were supported, had a damping effect.

New Issue Congestion

Gilt-edged also sagged and recovered, but over the period there was a net fall. Thus the past month has seen a slight reversal of the previous paradoxical firmness of gilt-edged as compared with equities, though it is difficult to see in this anything more than an incidental movement. The setback in gilt-edged can be largely explained by the authorities' tactics in the handling of new issues. A stream of trustee issues was permitted on terms fixed progressively below the market (which had not been prepared for their absorption by any easing of the credit position), and this led inevitably to the failure of the large L.C.C. loan, leaving the market with as severe an attack of indigestion as after the poor Australian result a few weeks earlier. Towards the end of the month the disappointing reception of a small and quite attractive Sudan loan showed that the market was still in no fettle to provide large amounts of new money. A Professional Note on an earlier page deals with the prospects of defence borrowing.

The Commonwealth Decision

The great hopes which a few years ago gave us the frantic "Yellowdine" boom in the shares of the Commonwealth Mining and Finance had an incongruous sequel this month when the Stock Exchange Committee refused facilities for dealing in the shares. Since the boom days, the market capitalisation of the Commonwealth group, in which Mr. Claude de Bernales is the leading spirit as chairman or managing director of the various companies, has slumped from some £9,325,000 at the peak to something less than £700,000. For all that, as it is estimated that some 25,000 shareholders are still concerned in the group, this drastic decision came as a first-class sensation. Fresh application for a quotation had become necessary on the reduction in the nominal value of the shares from 5s. to 2s. 6d. No reason for the Stock Exchange Committee's decision has, of course, been made known. The Commonwealth company itself has, however, revealed that it was arrived at after the sub-committee had requested replies to three questions. Of these the most important seem to have been whether it was a fact that the de Bernales family held substantially the whole of the capital of the vendor company to the Commonwealth mining and whether Mr. de Bernales as governing director for life of the vendor company was at the date of the prospectus entitled to the major share in its profits or surplus assets. On appeal, the original decision was not only confirmed but the withdrawal of permission to deal was extended to seven other companies of the group.

A Question of Procedure

While it is realised that the decision must involve a fresh hardship for the shareholders, it is generally accepted in the City that the Stock Exchange Committee would not have taken the action it did unless it were quite satisfied that it was required in the broad public interest. As a matter of general principle, however, it would not seem entirely satisfactory that weighty decisions of this kind should be left entirely to a private tribunal without any kind of formal procedure or organisation. The decisions are not wholly arbitrary, since it is understood that the interests concerned have an opportunity of stating their case, but there would seem to be no reason why the Stock Exchange, in exercising what are in fact disciplinary powers, should not institute procedure similar to that of the professional bodies. At the inquiries of the Law Society, the General Medical Council, and indeed the Society of Incorporated Accountants itself, the interests concerned can be represented by counsel or solicitors, with results which are undoubtedly more satisfactory.

Points from Published Accounts

Distillers' Reticence.—Out of total book assets of £35,101,515, Distillers Co. has interests in subsidiaries, including loan and current accounts, of £23,834,312 gross. Its principal remaining assets consist of general investments, totalling £6,133,111, and cash amounting to £3,239,713. The profit and loss account for the year ended May 15, 1939, contains only one major item, "Profit from trading after writing down buildings, plant and investments, providing for debenture interest, management remuneration, head office expenses, taxation, and contingencies, and including interest and dividends from investments." This item totals £2,492,719, compared with which the separate mention of income from registration fees, totalling £1,012, seems a matter of supererogatory detail. Such omnibus accounting of assets and profits is still not uncommon, though it is on the wane. But it is surely unusual for the shareholder to be vouchsafed no information regarding the cost of such a charge as debenture interest. It can, of course, be calculated with a little trouble, though there are two relatively small issues of stock and it is necessary to compute the interest on a net basis. The separate disclosure of interest is not, in the case of this company—with its broadly-based ordinary stock capitalisation—a matter of great import for the shareholders, but it is somewhat inconvenient for those whose duty it is to analyse company reports to have to perform such calculations. Another point regarding Distillers' profits does not strictly arise from the company's published accounts, but it is nevertheless of interest. The company has for some years given details of its profit and loss allocations, rate of dividend, carry-forward, and certain expense items in the form of a preliminary statement. The information given is sufficient to permit the calculation of total profits after debenture interest, but since the net cost, after income tax, of the preference and ordinary dividends is not explicitly stated, the calculation must be made by the stockholder. It is difficult to discern the advantage of a form of statement which, while providing a sufficient basis for inferring the company's profits, does not, in fact, state them directly.

Union Cold Storage.—The Union Cold Storage reports provide a rather unusual method of compliance with the requirements of Section 126 of the Companies Act. The statement regarding subsidiaries' profits is shown, not on the accounts themselves, but in the course of the directors' report, which is, to comply with the provisions, signed by the same directors as those signing the balance sheet. It is, too, a relatively explicit statement, which shows that the net results of subsidiaries for financial years ending within 1938 give a profit which is approximately equal to the net income derived from them by the parent company—that is, dividends declared, partly out of profits of prior years, less certain losses. In other respects, the accounts are less informative; the profits item is shown as one figure only, while no details are given of shareholdings in subsidiary companies, which appear at £8,709,780 out of a balance sheet total of £16,338,632. For some time past, the auditors' report has been given "subject

to the value of the shareholdings in subsidiary companies."

Amalgamated Anthracite Collieries.—A substantial revision and improvement has been effected in the Amalgamated Anthracite Collieries report for 1938. At the date of the balance sheet the reorganisation scheme had still to obtain sanction, but the directors made provision for its effect by reducing the parent company's asset values to their revalued level, and including a temporary item "Assets revaluation deficiency account" in the balance sheet, for the amount of £4,918,339. In this way, shareholders were shown the effect of the reconstruction scheme upon asset values. The consolidated balance sheet and profit and loss account of the group—the former with three years' comparative figures, and the latter with five years' figures—are well devised, with clear sub-totals for capital, surplus and reserves, debenture stocks and indebtedness, current liabilities and provisions in the case of liabilities, and fixed assets, semi-fixed assets, and current assets for the assets side. There is, however, one point regarding the treatment of advances from bankers, which appear among the debenture stocks and indebtedness group of items. For 1936, a red ink figure of £195,547 is shown for "advances from bankers," and for 1937, a red ink figure of £156,280. It is only in the latest year that advances from the bankers have actually been outstanding—to the extent of £649,378. The effect of the red ink items is perfectly clear, but since the group was in credit with its bankers in 1936 and 1937, is there any reason why the fact should not be positively stated by an assets item, rather than as a deduction from other indebtedness?

The Treatment of Profits.—Amalgamated Anthracite's statement of consolidated profits is devised on the illuminating lines of the Dunlop statement. For example, it shows an adjustment for profits and losses not applicable to the current year, in respect of 1934 and 1935—there have been no similar adjustments needed since that time. Since, however, one of these adjustments is a credit and the other a debit, it would seem desirable to distinguish them. Another point is that the treatment of the parent company's profit and loss balance and the amount brought forward from the preceding year, differs in the consolidated statement compared with the parent company's own accounts. The parent company's profit and loss account balance is shown at £88,120 in the consolidated statement, but in the appropriation account the shareholder may choose between net profits of £193,741 (before certain provisions, which have already been made before the figure is shown in the consolidated statement) or a balance carried to the balance sheet of £63,588—which does, of course, agree with the consolidated figure. When profits are struck at different points in the parent company's accounts and in the consolidated statement, such differences are bound to arise. They tend, however, to confuse the reader, and thus to rob consolidation of some of its advantages—which may be summed up, so far as profits are concerned, as an attempt to show

how the profits disclosed in the parent company's accounts are derived from the group.

Yorkshire Brick.—Positive statements in auditors' reports regarding asset valuations are comparatively rare. In the latest balance sheet of Yorkshire Brick Company, as at March 31, 1939, the auditors state explicitly that they consider the book value of the investments in associated companies to be in excess of their true value, and give their report subject to that

opinion. These investments account for £195,159 out of a balance sheet total of £721,053. The item appears to account largely for consolidated investments in associated companies of £195,424, but there is an interesting technical difference in the auditors' certificate in this case, which does no more than to certify that the consolidated statement has been properly compiled from the audited balance sheets of the company, its subsidiaries, and its sub-subsidiaries.

PUBLICATIONS

The Month's Publications

Auditing Principles and Procedure. By Arthur W. Holmes. (Business Publications, Inc., Chicago. Price \$5.00 net.)

This book may be commended to English accountants for its practical description of the American procedure for auditing the transactions of an individual, firm or corporation engaged in business. The text, including an index, runs to 561 pages, and is followed by very full reproductions illustrating the presentation of audit working papers. It may be questioned if anything has been gained by the realistic reproduction of working papers in their handwritten form. The book would have been none the less practical and would have gained in appearance if the working papers had been printed to conform with the text.

The first six chapters cover the nature and purpose of audits, the ethics and legal responsibility of auditors, the audit programme, the working papers, the original records, and a discussion on internal check and fraud. The next eleven chapters follow a balance-sheet classification. The audit of asset accounts is dealt with in the order of their liquidity thus—cash, receivables, inventories, investments, fixed tangible assets and valuation reserves, prepaid expenses and deferred charges, and intangibles. There is a chapter on the audit of current liabilities, and one on the audit of fixed and deferred liabilities, followed by a chapter on net worth and net worth reserves. The six closing chapters of the book cover the subjects of profit and loss accounts, the completion of the audit, certificates and reports, a discussion on the detailed audit and a practice problem "designed to give practice in the performance of a balance-sheet audit."

The book is written for both the student and the practitioner. It has been "planned to give the student a practical knowledge of auditing," and in addition, the author goes on to say that he has written it "with the hope that it may assist in raising the standards of the profession." To satisfy both these aims is a difficult matter, but we should have been interested to have read extracts from some of

the more important American judgments in amplification of the summary of the legal responsibilities of the professional auditor based upon court decisions, more particularly as Professor Holmes tells us that "to a great extent, American courts are relying upon British decisions for their guidance."

In the first chapter there are set out fourteen qualifications of an auditor. Two of these may appear novel to the English mind, which tends to distinguish between auditing proper and accounting advisory work. Thus an auditor is required to have "a complete mastery of budget preparation and control," the author remarking that "this is necessary when the auditor prepares or assists in the preparation of budgets. If his budgets are inaccurate, the client mentally will hold him responsible for differences between budgeted figures and actual results." Again, "as an adviser both of accounting technic and procedure and on the general phases of a business, the auditor must be possessed of a large amount of constructive ability." In England we are accustomed to the dictum that it is no part of an auditor's duty to give advice on the management of a business.

In this book we are made familiar with the backward-looking view of American practice. Professor Holmes tells us that: "A balance sheet audit consists of the detailed verification of all balance sheet accounts, together with tests of profit and loss accounts which are so closely related to the balance-sheet items that a balance-sheet cannot properly be verified without an analysis and test of the other."

The distinction between certificates and reports will be of interest to English accountants. We have become so accustomed to the form of report required by our Companies Act, 1929, that it is somewhat surprising to find that the American auditor may report at considerable length to his client, in addition to giving his certificate, and that he may include in it such matters as balance sheet ratios. Some of us who are new to American practice may also be surprised to learn that the certificate of the American auditor is commonly addressed to the board of directors.—F. S. BRAY.

Municipal Internal Audits. By Arthur Collins, F.S.A.A. Sixth edition. (Gee & Co. (Publishers), Ltd., London. Price 10s. net.)

To reach a sixth edition is surely a record for a book on municipal finance. This is of itself a sufficient recommendation of a volume which since its first appearance in 1904 has been one of the few textbooks universally used by municipal accountancy students. The popularity of the book does not rest merely on the author's reputation; Mr. Collins thoroughly understands the atmosphere of a local authority and the essentials of an internal audit department. For this reason the book should be carefully read by all junior audit clerks, as well as by examination candidates.

Mr. Collins confines himself to income. After dealing with general principles he proceeds to consider the departments of a local authority one by one, explaining the main sources of income and the methods of audit available. The importance of fundamental—and usually elementary—safeguards cannot be over-emphasised. Practically all the frauds which have taken place in local government during the past few years would have been detected had full regard been paid to the basic principles discussed by Mr. Collins.

The book contains a wealth of detail and is reasonably complete, though some classes of income are treated inadequately. Thus, in dealing with prepayment collections the author has not considered the full implications of the advent of the two-part tariff meter, which has changed prepayment collection during the past few years. Again, as regards income in respect of patients in institutions and hospitals, the author glosses over several important points. To take a further example—the case of cemeteries—it would be easy for a person of far less ingenuity than Mr. Collins to drive a coach and four through the safeguards he suggests. The appendices explaining the checks associated with certain machines are instructive, but not sufficiently critical. We still await a thorough exposition of the technique of auditing mechanised systems of accountancy.

On page 53 the reference to the Municipal Corporations Act, 1882, should be to the Local Government Act, 1933.—A. H. Marshall.

Surtax and Undistributed Income. By G. B. Burr, F.C.I.S. (Gee & Co. (Publishers), Ltd., and Taxation Publishing Co., Ltd. Price 12s. 6d. net.)

This work, notwithstanding its wide title, is confined to an examination of the law relating to assessment of surtax on the undistributed income of companies. The provisions of the Finance Acts are arranged in a logical form, and the author has made a detailed and critical examination of the main enactments and the decisions in the Courts. The

book opens with a chapter on the methods whereby a company's income could reach the hands of the members in the form of capital, and closes with a description of some methods of avoiding the legislation. The statutes, as amended, appear in an appendix, together with summaries of the facts and decisions of all the cases on the subject.

The introductory matter is compressed, and readers coming fresh to the subject will find the book difficult to follow. The author has perhaps been too anxious to avoid repetition, and the book does not contain the number of cross-references generally desired by practitioners. This, added to the fact that, in quoting decisions, references to the official Tax Cases and Law Reports are generally omitted, detracts from the book's convenience. Owing to the incorporation of the 1939 Finance Bill in its original form, the book must be used in conjunction with the Act itself, when finally published.

The chapter illustrating the machinery provisions in operation is the best feature of the work. We do not, however, share the author's view that the difficulty of the subject is largely increased by poor draftsmanship of particular sections of the Acts, and the value of the book would have been enhanced if references had been given to authorities assisting in the interpretation of some of the difficult clauses to which he draws attention. Moreover, it will be noticed that in many cases where an attempt is made to state the effect of a particular clause in clearer language, much of the meaning of the original language has been lost.—R. A. Furtado.

Company Law in a Nutshell. By J. A. Balfour. Second Edition. (Sweet & Maxwell, Ltd. 3s. 10d., post free.)

Sweet & Maxwell's "Nutshell Series" have acquired a reputation with law students. They cover almost every branch of law on well-tryed "crammer" methods, and in so far as "cram" books can be recommended at all (for their dangers of confusing the mind of the student are apparent) this series fulfils its avowed function very well. "Company Law in a Nutshell" is a title sounding of the paradoxical when we consider the three-volume *Palmer*, not to mention *Buckley*, and when it is realised what a mass of case law is compressed within the "nutshell" compass of one hundred pages. Mr. Balfour has accomplished a difficult task in presenting in the form of lecture notes the essence of elementary company law.

The new edition is thoroughly revised and gives many recent cases. The appendices are valuable; they include the Prevention of Fraud (Investments) Act, 1939. The sections on Liquidation and on Reconstruction and Amalgamation are clearly set out. After a careful study of Topham's *Company Law*, a student might well refer to this "Nutshell" book for purposes of revision.—E. E. Edwards.

BOOKS RECEIVED

Arbitration and Awards. By D. F. de l'Hoste Ranking, M.A., LL.D., E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A. Seventh edition edited by C. A. Sales, LL.B., F.S.A.A., and W. W. Bigg, F.C.A., F.S.A.A. (H.F.L. (Publishers), Ltd., London. Price 7s. 6d. net.)

Executorship Law and Accounts. By D. F. de l'Hoste Ranking, M.A., LL.D., E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A. Fourteenth edition edited by H. A. R. J. Wilson, F.C.A., F.S.A.A. (H.F.L. (Publishers), Ltd., London. Price 15s. net.)

Visitors' Guide to British Income Tax. By H. C. G. Slater, A.C.I.S. (Gee & Co. (Publishers), Ltd., London. Price 7s. 6d. net.)

Credit Dealing. By Edward C. Warren, B.Com., F.C.I.S., F.R.Econ.S. (Sir Isaac Pitman & Sons, Ltd., London. Price 5s. net.)

Gee's Modern Year Book. A guide to the news of to-day. Edited by Vernon Sommerfield. (Gee and Co. (Publishers), Ltd., London. Price 5s. net.)

British Management Year Book, 1939. Edited by Reginald Pugh. (Sir Isaac Pitman & Sons, Ltd., and Management Publications Trust, Ltd., London. Price 10s. 6d. net.)

An Examination Note Book for Accountant Students. By E. E. Spicer, F.C.A., and E. C. Pegler, F.C.A. Tenth edition by W. W. Bigg, F.C.A., F.S.A.A., and H. A. R. J. Wilson, F.C.A.,

F.S.A.A. (H.F.L. (Publishers), Ltd., London. Price 6s. net.)

Dow Theory Applied to the London Stock Exchange. By Major C. B. Ormerod. (Sir Isaac Pitman and Sons, Ltd. Price 7s. 6d. net.)

INCORPORATED ACCOUNTANTS' HALL NEW LIBRARY CATALOGUE

A printed catalogue of the library at Incorporated Accountants' Hall has now been published. The book, which is attractively produced in dark blue buckram binding and gilt lettering, contains nearly 500 pages. It is available free of charge, on application to the Librarian, to members of the Society of Incorporated Accountants and of Incorporated Accountants' Students' Societies. The arrangement is alphabetical under names of authors and subjects, and books available for consultation in the library only are distinguished by the word "Reference." The reference section includes an interesting collection of about 200 early works on book-keeping and mathematics, illustrating the history of these subjects from the sixteenth century.

The volume also contains the regulations and the outline of the classification by which the books are arranged on the shelves.

The existing card catalogue in the library will be maintained and will be kept up to date as new books are added. It is hoped also to publish lists of accessions from time to time in ACCOUNTANCY.

STUDENTS

Terminal Costing

Some years ago, "finding the cost of a unit of production" could be regarded as a reasonable delimitation of the field of study in cost accounting. But, largely under the influence of American ideas, the emphasis is now being shifted, problems are being approached from fresh angles, and the whole study is being enlarged. It is perhaps with a sense of relief that the student turns from these newer problems, which are associated mainly with types of factory costing, to what is usually known as terminal costing, where the theory at any rate is as clear as he could desire. Rather surprisingly this kind of costing is still not fully understood by many students.

Terminal costing applies to such industries as shipbuilding and building contracting where the work during an accounting period consists of a small number of relatively large jobs. The object is to find the cost of each job and, consequently, the profit or loss made on it. In terminal costing, the costing records and the financial accounts do not run side by side as more or less separate systems but the financial accounts themselves are modified so as to produce the desired result. The modification consists of the use of a contract ledger which contains an account for each contract, but although the ruling of this book is in principle the same as

that of an ordinary ledger, free adaptations are possible to meet the convenience of the particular concern.

Since the object is to find the cost price of each contract, it follows that the account for each contract must be debited with the wages relating to the contract, the materials used upon it and the proportion of the indirect expenses which can be regarded as chargeable to it. The treatment of the first two of these items is usually straightforward.

Indirect wages are posted from the cash book to an account under that name and the direct wages can usually be analysed quite easily since the workers will very probably be employed on the same job for long periods. The entry for the direct wages is: debit the appropriate contract accounts and credit cash account. It should be noted at this point that no account for direct wages is needed.

Materials delivered intact to the site and used wholly on the one contract can be posted through a special column in the invoice book, the entry being: credit the supplier's account, debit the appropriate contract account. If materials are delivered to the yard or stores and then issued as required, a column headed "stores" is used in the invoice book, the ultimate double entry being: credit the supplier's

account, debit stores account. Issues from the yard or stores are made on requisitions which are summarised on an abstract and then entered by a credit to stores account and a debit to the appropriate contract account. At the end of the period, the accountant closes the stores account by bringing down as a balance the amount of stores on hand. Care should be taken not to confuse this stores account with the customary account for purchases which is not now required.

Two facts make the treatment of the indirect expenses much easier than it is in factory costing. First, the indirect expenses are likely to be quite a small proportion of the total costs. Consequently, the question of allocation of them need not be considered so exhaustively as it would have to be if the indirect expenses made up a large proportion of the total cost. Second, since the work is usually done under contract, there is not the same urgency to obtain the cost of the work as there would be in factory costing. In terminal costing, the accountant can wait until the end of a period when at least he will know exactly what his indirect expenses are and he is thus relieved of the difficulties and uncertainties of a predetermined rate for the recovery of indirect expenses. The nominal accounts can usually be kept in the customary way and at the end of a period provision for expenditure accrued due, and so on, is made upon them. Then, instead of transferring them to the profit and loss account, the accountant collects them into an expense allocation account. In turn, this account is closed by transferring to the various contract accounts the proportions of the total which can reasonably be regarded as chargeable to them. The basis upon which the amounts are calculated is usually more or less arbitrary. The total can be divided between the contracts in proportion to the total outlay or to the wages on each contract, and though perhaps there is not a very strong theoretical justification for either method, the fact that the indirect expenses are such a small proportion of the total costs makes the matter relatively unimportant in practice.

The account for each contract now contains the wages, materials and expenses relating to that contract and the balance of the account at any particular date is the cost price of the work in progress. At the conclusion of the contract, the account is credited with the contract price and the complementary debit is made on the account of the person for whom the contract was done. The contract account is then closed by transferring the balance, which is, of course, the profit or the loss on the particular contract, to an account called "profits and losses on contracts," and the personal account is settled by the receipt of money. It is worth noticing that a frequent error in this connection is the crediting of money received on account

to the contract account and not to the personal account.

The final accounts now appear in an unusual form. Accounts for direct wages and for purchases have not been kept and the nominal accounts have been closed through the expenses allocation account. Thus, the revenue side of the final accounts has been abolished. What has happened, in fact, is that the figures which might have appeared in the usual revenue accounts have now been split up between the various contract accounts. In practice, a profit and loss account is usually given which contains the balance of the profits and losses on contracts account, and a few items such as transfer fees, interest, and so on, which might not be considered applicable to the contract accounts. This short account is followed by an appropriation account (where necessary) and a balance sheet.

A few points of detail are worth mentioning. Sub-contracts, *e.g.*, the installation of electric light, can be treated in exactly the same manner as the purchases of materials delivered to the site. Plant and machinery might be treated in the usual way, the depreciation being passed through the expense allocation account or, alternatively, the plant used on a contract might be transferred from plant account at the beginning of the work and transferred back at its value at the end of the work. This method not only has the advantage of keeping a record of the plant but also has the effect of charging the depreciation directly to the particular contract account. Where jobbing work is done in addition to the large contracts, the system will be a great deal more complicated in its detail. A jobbing ledger will be used in addition to the contract ledger, but for the jobbing work a wages abstract, a full system of stores control, and a predetermined rate for the recovery of the indirect expenses will almost certainly be required.

The valuation of work in progress is a matter of prime importance. The general rule is that work in progress should be valued at its cost price, which will be, of course, the balance of the contract account. If any loss is anticipated on a contract, it would be prudent to make some provision for it. This could be done by debiting profits and losses on contracts account and crediting the particular contract account. The latter entry has the effect of reducing the balance which will be brought down on the contract account and consequently of reducing the figure of work in progress which will appear in the balance sheet. Only in special circumstances would it be advisable to bring into account any part of the profit which it is thought that the contract might yield. The entries would be the reverse of those for a possible loss, but it should be emphasised that such a course should only be taken in exceptional cases where inequity, say between classes of shareholders, would otherwise arise.

RESEARCH**Incorporated Accountants' Research Committee****DESIGN OF ACCOUNTS**

The Incorporated Accountants' Research Committee have undertaken the task of preparing specimen forms of accounts for various businesses and professions. Some of the specimen forms have already appeared in previous issues as follows:—

General Forms of Accounts	April, 1937	Hotels	June, 1938
Executors and Trustees	June, 1937	Laundries	July, 1938
Bakeries	July, 1939	Medical Practitioners	August, 1938
Boot and Shoe Manufacturers	October, 1937	Motor Transport	September, 1938
Brickworks	November, 1937	Printers	October, 1938
Building and Estate Development	December, 1937	Rubber Companies	November, 1938
Cinemas and Dance Halls	January, 1938	Schools	December, 1938
Cotton Merchants	February, 1938	Shipping	January, 1939
Engineers... ..	March, 1938	Solicitors	March, 1939
Farms	April, 1938	Stockbrokers	April, 1939
Garages	May, 1938	Textile Manufacturers	May, 1939

Useful criticisms and suggestions which have been received from readers on the forms of accounts already published are being carefully considered by the Research Committee. The accounts—which should not be regarded as model accounts, but as bases for more definite formulation—are published with an invitation to readers to submit their comments and criticisms.

A design for Voluntary Hospitals accounts is set out below.

VOLUNTARY HOSPITALS**A.—BALANCE SHEET AS AT — 19 —**

I. Endowment Fund :				I. Endowment Fund :			
Capital account at —	..	£	£	Investments .. ..	..	£	£
Add Endowment Legacies received .. ..	..	—	—			
		—	—				
		—	—				
II. Building Funds :				II. Building Funds :			
Capital accounts at —	..	—	—	Investments .. ..	..	—	—
Add Receipts during year :—	..	—	—	Income Tax recoverable .. ..	..	—	—
Special Donations .. ..	..	—	—	Cash at Bank .. ..	..	—	—
Investment and Bank Interest .. ..	..	—	—			—	—
		—	—			—	—
Less Capital Expenditure during year .. ..	..	—	—			—	—
		—	—			—	—
Sundry Creditors .. ..	..	—	—			—	—
		—	—			—	—
III. Special Funds :				III. Special Funds :			
Capital accounts at —	..	—	—	Investments .. ..	..	—	—
Income Accounts—Unexpended balances .. ..	..	—	—	Sundry Debtors .. ..	..	—	—
Sundry Creditors .. ..	..	—	—	Cash at Bank and in Hand .. ..	..	—	—
		—	—			—	—
		—	—			—	—
IV. Trust Funds :				IV. Trust Funds :			
Capital Accounts .. ..	..	—	—	Investments .. ..	..	—	—
V. General Fund :				V. General Fund :			
Capital Account at —	..	—	—	Freehold and Leasehold Property .. ..	..	—	—
Less Deficit [Add Surplus] on Income and Expenditure Account .. ..	..	—	—	Investments .. ..	..	—	—
		—	—	Sundry Debtors .. ..	..	—	—
		—	—	Cash in Hand .. ..	..	—	—
Sundry Creditors .. ..	..	—	—			—	—
Bank Overdraft .. ..	..	—	—			—	—
		—	—			—	—
VI. Maintenance Committee :				VI. Maintenance Committee :			
Balance per Account .. ..	..	—	—	Sundry Debtors .. ..	..	—	—
		—	—	Cash at Bank and in hand .. ..	..	—	—
		—	—			—	—
VII. Superannuation Accounts ..				VII. Superannuation Accounts :			
		—	—	Cash at Bank .. ..	..	—	—
		—	—			—	—
		—	—			—	—

B.—INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED — 19—.

	£		£	£
I. Salaries and Wages	—	I. Receipts on Account of Services Rendered :		
II. Medical and Surgical Supplies ..	—	In-Patients—General Wards ..	—	
III. Provisions	—	Private Wards ..	—	
IV. Domestic Expenses	—	Out Patients	—	
V. Renewals and Repairs to Buildings and Plant ..	—	Public Authorities	—	
VI. Rates, Taxes and Insurance ..	—	Special Schemes	—	
VII. Office and Administration Expenses ..	—	Training and Other Fees ..	—	
Total Ordinary Expenditure on Hospital Service ..	—	Total Receipts for Services Rendered ..	—	—
	£	II. Net Cost of Hospital Service :		
VIII. Net Cost of Hospital Service, Balance brought down ..	—	Balance Carried Down ..	—	—
IX. Extraordinary Expenditure : Special Equipment	—			
X. Balance : Net Surplus	—	III. Voluntary Income :	£	£
		Annual Subscriptions	—	
		Donations	—	
		Box Collections	—	
		Church Collections	—	
		Maintenance Committee ..	—	
		Ladies' Linen League	—	
		IV. Extraordinary Income : Unrestricted Legacies ..	—	
		V. Investment Income :		
		Interest on Investments ..	—	
		Less Bank Interest	—	
		VI. Other Income :		
		Net Rents of Properties ..	—	
		VII. Balance—Net Deficit ..	—	—

These forms are based on the accounts of the Royal Liverpool United Hospital, to which Hospital and to Messrs. Harwood Banner & Son our grateful acknowledgments are due. The forms are not, of course, applicable to the circumstances of every hospital, particularly those under the uniform system of accounts required by the King Edward's Hospital Fund, and it is hoped to publish at a later date details of alternative methods.

STATISTICS

SUBSIDIES

Since 1924 the Government has subsidised industry directly to the extent of nearly £79½ million. The detailed figures are set out in the following table. It should be remembered that, in addition, a number of industries receive indirect assistance from the State:—

Year.	Cunard Steam.	Armour Plate Manufacturers.	Light Horse Breeding (War Office).	Mechanical Transport (War Office).	Civil Aviation.	Sugar Beet.
	£	£	£	£	£	£
1924-25	90,000	—	28,120	7,152	138,511	492,040
1925-26	90,000	—	30,066	28,724	137,000	1,066,090
1926-27	90,000	—	29,571	39,592	172,480	3,225,859
1927-28	63,698	90,656	30,041	41,058	226,400	4,306,200
1928-29	—	89,997	30,201	39,332	230,600	2,854,239
1929-30	—	65,675	30,027	40,186	341,700	4,229,730
1930-31	—	60,000	30,291	34,320	388,750	6,022,972
1931-32	—	—	24,623	16,464	394,882	2,135,192
1932-33	—	—	10,549	4,720	398,343	2,356,207
1933-34	—	—	—	1,800	399,959	3,332,910
1934-35	—	—	5,000	660	442,110	4,449,883
1935-36	—	—	5,000	200	325,228	2,285,570
1936-37	—	—	5,000	120	312,044	2,960,978
1937-38	—	—	5,000	60	614,072	1,217,904
1938-39	—	—	5,000	—	1,047,967	1,753,270
Totals	333,698	306,328	268,489	254,388	5,570,046	42,712,101

Year	Cattle Industry.	Milk.	Land Fertility Improvement.	Herring Industry.	Tramp Shipping	Totals.
	£	£	£	£	£	£
1924-25	—	—	—	—	—	758,698
1925-26	—	—	—	—	—	1,351,690
1926-27	—	—	—	—	—	3,557,502
1927-28	—	—	—	—	—	4,761,113
1928-29	—	—	—	—	—	3,244,369
1929-30	—	—	—	—	—	4,707,318
1930-31	—	—	—	—	—	6,536,355
1931-32	—	—	—	—	—	2,571,161
1932-33	—	—	—	—	—	2,769,819
1933-34	—	—	—	—	—	3,734,660
1934-35	2,013,307	1,385,142	—	250	728	8,297,080
1935-36	3,884,049	1,854,106	—	12,140	1,997,603	10,363,986
1936-37	3,982,146	1,044,477	—	47,440	1,999,532	10,371,737
1937-38	3,943,210	760,282	638,094	47,477	4,320	7,230,419
1938-39	4,292,082	652,764	1,323,419	2,500	—	9,241,870
Totals	18,114,794	5,696,861	1,961,513	100,807	4,002,183	79,497,954*

* Including £2,575 paid to the dye industry in 1924-25, and £104,868 to oats and barley producers in 1938-39.

Society of Incorporated Accountants

COUNCIL MEETING

AT UNIVERSITY COLLEGE, NOTTINGHAM, JULY 19, 1939

Present: Mr. Percy Toothill (President), Mr. Richard A. Witty (Vice-President), Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. Arthur Collins, Mr. E. Cassleton Elliott, Mr. Alexander Hannah, Mr. Walter Holman, Mr. Edmund Lund, Mr. C. Hewetson Nelson, Mr. Bertram Nelson, Mr. James Paterson, Mr. F. A. Prior, Mr. R. E. Starkie, Mr. Joseph Turner, Mr. R. T. Warwick, Mr. A. A. Garrett (Secretary) and Mr. L. T. Little (Deputy Secretary).

Apologies for non-attendance were received from Mr. F. J. Alban, Mr. C. P. Barrowcliff, Mr. Henry J. Burgess, Mr. D. E. Campbell, Mr. W. Allison Davies, Mr. M. J. Faulks, Sir Thomas Keens, Mr. Henry Morgan and Mr. A. H. Walkey.

CLASSIFIED LISTS AND TRADE DIRECTORIES

The Council passed the following resolution:—

That the Council adopt the following statement as governing insertions by members of names in Directories and this statement be issued to each member of the Society:—

The Council has given consideration to the question of insertions by members of names in Directories, and has decided that for the future, although no objection will be taken to the insertion of names of members or firms in any directory either in the main section or in any classified list, whether paid for or not, any insertion which appears in leaded type or in any form which could be regarded as of an advertising character can be dealt with as conduct discreditable to a member under the provisions of the Society's Articles.

ILLUMINATED VOTE OF THANKS TO MR. WALTER HOLMAN

The President presented to Mr. Walter Holman a framed and illuminated inscription of the vote of thanks adopted by the members of the Society at the annual general meeting in May, 1939, with an expression of the appreciation of the members of the Council of Mr. Holman's services as President of the Society from 1937 to 1939. Mr. Walter Holman acknowledged the presentation.

SOUTH AFRICAN BRANCHES

The Council received a report that Mr. Alan R. Butcher, A.S.A.A., Durban, had been appointed Honorary Secretary of the Society's South African Eastern Branch in succession to the late Mr. W. R. Fraser; also that Mr. R. B. Hogg, F.S.A.A., the Hon. Secretary of the South African Northern Branch, Johannesburg, was on a visit to London and had met the South African Committee of the Council.

RESIGNATIONS

The resignation of each of the following members was accepted with regret as from the dates indicated:—

December 31, 1938: WINSLET, VICTOR GEMMELL (*Associate*), Glasgow.

December 31, 1939: NICHOLSON, ROBERT GOLDTHORP (*Fellow*), Rotherham; SAMMAN, RONALD ARTHUR CHATAWAY (*Associate*) Colchester,

DEATHS

The Secretary reported with regret the death of each of the following members:—

ASPRAY, NEVILLE (*Associate*), Harrow.

CARROLL, RICHARD (*Associate*), Liverpool.

COBDEN, WILLIAM (*Associate*), Barnet.

DRYSDALE, JOHN MONTEITH (*Fellow*), Buenos Aires, Argentine.

LAWTON, NELLIE ELIZABETH (*nee* BOWGEN) (*Associate*), Harrogate.

MACRAE, HAROLD JOHN (*Fellow*), Johannesburg.

RANDLE, THOMAS HENRY (*Associate*), Birmingham.

SMITH, JOSEPH (*Fellow*), Torquay.

TURQUAND, ERNEST BARNARD (*Fellow*), London.

WARD, CHARLES EDWIN (*Associate*), Birmingham.

WOODTHORPE, GEORGE ARTHUR (*Associate*), Bulawayo, Rhodesia.

NATIONAL SERVICE: ABSENTEE PRACTITIONERS IN AN EMERGENCY

The Council discussed the question of the continuation of the practices of members who would be absent on National Service in the event of an emergency. The Council felt that arrangements could best be made between members individually by direct personal negotiation. To facilitate the initiation of such negotiations, it was considered that there should be prepared by each Branch and District Society a list of members who might require the co-operation of other members in an emergency and a list of members who would be willing to give such assistance, an outline of the proposals to be embodied in a memorandum to be sent to each Branch and District Society from the Society's Head Office.

CONFERENCE DINNER

We give below a complete list of members and guests who intimated their intention to be present at the Dinner of the Society of Incorporated Accountants, held in University Buildings, University Park, Nottingham, on July 20. Mr. Percy Toothill, President of the Society, presided. A report of the speeches is given on pages 409 to 411 of this issue.

The Lord Mayor and the Lady Mayoress of Nottingham, Alderman J. Baldwin, J.P., and Mrs. Baldwin; Sir Hugh Seely, Bart., M.P.; Mrs. Percy Toothill; Sir Julien Cahn, Bart., J.P., and Lady Cahn; the Right Rev. Bishop N. S. Talbot, D.D., M.C.; the Sheriff of Nottingham, Councillor L. Pilsworth, and Mrs. Pilsworth; Mr. H. A. S. Wortley, M.A., J.P., Principal, University College, and Mrs. Wortley; Mr. Richard A. Witty, Vice-President of the Society, and Mrs. Witty; the Mayor of Lincoln, Councillor H. Willcock, J.P., and the Mayoress of Lincoln; Mr. W. S. Liddall, C.B.E., M.P., J.P., and Mrs. Liddall; Air Vice-Marshal J. E. A. Baldwin, C.B., O.B.E., and Mrs. Baldwin; Mr. C. Hewetson Nelson, J.P., Past President of the Society; Mr. F. A. Prior, Member of Council of the Society, President Nottingham, Derby and Lincoln District Society, and Mrs. Prior; Sir Ernest Jardine, Bart., J.P.; Mr. E. Cassleton Elliott, Past President of the Society, and Mrs. Elliott; Right Rev. J. F. McNulty, D.D.; Mr. J. Ashley Player; Mr. R. Wilson Bartlett, J.P., Past President of the Society, and Mrs. R. Wilson Bartlett; Alderman Sir Albert Ball, J.P., and Lady Ball; Mr. Walter Holman, Past President of the Society, and Mrs. Holman; Alderman W. Foster,

M.C., J.P., and Mrs. Foster; Ven. Archdeacon H. V. Turner, M.A.; Councillor W. Hooley, J.P., and Miss Hooley; Alderman H. Bowles, J.P.; Mr. J. E. Richards, Town Clerk of Nottingham; Mr. A. J. Hayward, President, Nottingham Society of Chartered Accountants; Mr. Horace Bright, President, Nottingham Law Society, and Miss Bright; Mr. and Mrs. H. J. Staines; Colonel A. A. Walton, T.D., F.S.I., F.A.I., and Mrs. Walton; Mr. W. Powell Heath, Director of Barclays Bank, and Mrs. Heath; Mr. and Mrs. G. Thornton Simpson; Mr. R. G. Hogarth, C.B.E., F.R.C.S., and Mrs. Hogarth; Mr. H. Pickbourne, B.A., Registrar, University College, and Mrs. Pickbourne; Mr. H. S. Sherwin, the Lord Mayor's Secretary, and Mrs. Sherwin; Captain John Farr, J.P., and Mrs. Farr; Mr. C. E. Blake, President, Nottingham Institute of Bankers, and Mrs. Blake; Mr. B. Hallam, Chairman, Nottingham Stock Exchange, and Mrs. Hallam; Mr. J. B. Burnie, Hon. Secretary, Nottingham Society of Chartered Accountants, and Mrs. Burnie; Mr. Howard E. Clark, Chairman, North-East Midlands Branch, Chartered Institute of Secretaries, and Mrs. Clark; Mr. G. B. Blunden, Inspector of Taxes, and Mrs. Blunden; Mr. Rutherford G. Ikin, M.A., Headmaster, Trent College, and Mrs. Ikin; Colonel B. H. Brewill, T.D., F.C.A., and Mrs. Brewill; Mr. C. L. Reynolds, M.A., Headmaster, High School, Nottingham, and Mrs. Reynolds; Mr. H. B. Oldfield, President, Nottingham Insurance Institute, and Mrs. Oldfield; Mr. A. J. Walker, Manager, Midland Bank, and Mrs. Walker; Mr. P. P. Butters, The Warden, Hugh Stewart Hall, University College; Mr. Harry Preston, President, Federation of Lace and Embroidery Manufacturers' Associations, and Mrs. Preston.

Mr. F. J. Alban, C.B.E., Member of Council of the Society; Mr. and Mrs. G. F. H. Armon; Mr. W. J. Back; Mr. R. H. Barber; Mr. Donald H. Bates, J.P., Hon. Secretary, North Staffordshire District Society, and Mrs. Donald H. Bates; Mr. and Mrs. F. S. Bentley; Mr. and Mrs. Arthur Bewley; Mr. Stanley Blythen, O.B.E., and Mrs. Stanley Blythen; Mr. R. M. Branson, Member of Council of the Society, and Mrs. R. M. Branson; Mr. F. W. Brierley; Mr. and Mrs. Thomas Broadley; Mr. J. Paterson Brodie, Member of Council of the Society, and Mrs. J. Paterson Brodie; Mr. E. T. Brown; Mr. W. Norman Bubb, Member of Council of the Society; Mr. P. Cardwell; Mr. J. Burton Carter, Hon. Secretary, Nottingham, Derby and Lincoln District Society; Mr. Ernest Chetter, President, Liverpool District Society; Mr. and Mrs. Walter Clayton; Mr. Arthur Collins; Mr. and Mrs. Harry Cunningham; Mr. Ivor Davies, Hon. Secretary, South Wales and Monmouthshire District Society; Mr. and Mrs. J. Derwick; Miss D. H. Dickens; Mr. and Mrs. Frank Dixon; Mr. Charles M. Dolby; Mr. and Mrs. D. C. N. Duncan; Mr. and Mrs. W. F. Edwards; Miss Anne J. Farr; Mrs. E. Fasey; Mr. and Mrs. Arnold R. Favell; Mr. Ernest W. Felstead; Miss G. M. Fish; Mr. M. Fletcher; Mr. W. R. Fletcher; Mr. and Mrs. G. Leonard Foulds; Mr. and Mrs. W. H. Fox; Mr. C. M. Foxon; Mr. J. W. Fraser; Mr. and Mrs. C. S. Garraway; Mr. A. A. Garrett, M.B.E., M.A., Secretary of the Society of Incorporated Accountants, and Mrs. A. A. Garrett; Mr. A. F. Girling, President, Sheffield District Society, and Mrs. A. F. Girling; Major Edward S. Goulding, O.B.E.; Mr. Basil Greatwood; Mr. and Mrs. William Gretton; Mr. Glyn M. Griffith, President, Swansea and South Wales District Society, and Mrs. Glyn M. Griffith; Mr. Alexander Hannah, Member of the Council of the Society; Mr. Stanley W. Hanscombe, M.B.E.; Mr. S. T. Harris; Mr. B. Harrison; Miss Harrison; Mr. E. Ransom Harrison; Mr. and Mrs. R. A. B. Heard; Mr. and Mrs. S. R. F. Hickman; Mr. H. T. Hooley; Mr. H. R. Horne, M.C., and Mrs. H. R. Horne; Miss E. Horsfield; Mr. J. L. Hubbard, M.S.M.; Mr. and Mrs. John V. Hutton; Mr. and Mrs. J. A. Jackson; Mr. A. Jobling, Manager, National Provincial Bank, and Mrs. A. Jobling; Mr. Hugh O. Johnson; Mr. and Mrs. A. W. Kearsley; Miss Dorothy C. Kee; Mr. and Mrs. R. L. Kemp; Mr. and Mrs. F. W. E. King; Mr. Herbert Kirk; Miss Stella G. Lange; Mr. Paul Lazzari; Miss I. M. Leeper; Mr. Leslie Lewis; Mr. L. T. Little, B.Sc., Deputy Secretary of the Society of Incorporated Accountants; Mr. J. Canning Loughridge; Mr. Daniel Mahony; Mr. and Mrs. John Marcroft; Mr. A. W. Marshall; Mr. N. A. Medlock; Mr. and Mrs. J. W. Mee; Mr. and Mrs. C. Miller; Mr. T. O. Morgan, Hon. Secretary, Swansea and South-West Wales

District Society, and Mrs. T. O. Morgan; Mr. A. E. Mowforth; Mr. W. D. Murphy; Mr. Bertram Nelson, Member of Council of the Society; Mr. F. W. Newbould; Mr. C. H. Noskowitz; Mr. and Mrs. Geoffrey Nutt; Mr. E. Harry Palmer; Mr. H. F. Palmer, M.B.E., and Mrs. H. F. Palmer; Mr. James Paterson, Member of Council of the Society, and Hon. Secretary, Scottish Branch; Miss Nancy Paterson; Mr. E. Ewart Pearce; Mr. and Mrs. D. R. C. Phipp; Mr. A. E. Piggott; Mr. Halvor Piggott, Hon. Secretary, Manchester District Society, and Mrs. Halvor Piggott; Mr. P. K. Pitt; Mr. H. Bennett Platts; Mr. T. Harold Platts, President, Birmingham District Society; Miss K. A. Popper, M.B.E.; Mr. John J. Potter, Hon. Secretary, Birmingham District Society, and Mrs. Potter; Mr. G. Roby Pridie; Mr. and Mrs. R. F. Prior; Mr. Hiram Reid; Mrs. J. W. Richardson; Mr. and Mrs. R. F. J. Ricks; Miss P. E. M. Ridgway, B.A.; Mr. L. E. Rudkin; Miss E. M. Salmon; Mr. G. M. Sandison; Mr. and Mrs. J. Scott-Moore; Mr. and Mrs. Archibald Sharp; Mr. H. Basil Sheasby; Mr. and Mrs. J. T. Singleton; Mr. and Mrs. P. W. Skinner; Mr. and Mrs. Henry Smith; Mr. Alfred Southern, President, Manchester District Society, and Mrs. Alfred Southern; Mr. R. E. Starkie, Member of Council of the Society; Mr. and Mrs. F. H. Starling; Mr. H. R. Stone; Mr. and Mrs. E. A. Toplis; Mr. J. H. Trease, J.P.; Mr. and Mrs. V. W. Trivett; Mr. Francis Tucker; Mr. Joseph Turner, Member of Council of the Society, and Mrs. Turner; Mr. E. J. Waldron; Mr. A. E. F. Walker, LL.B., and Mrs. Walker; Miss C. Walker; Mr. Percy H. Walker, President, South Wales and Monmouthshire District Society, and Mrs. Percy H. Walker; Mr. and Mrs. B. H. Wallis; Mr. N. B. Wallis; Capt. Stanley I. Wallis and Mrs. Wallis, M.A.; Mr. and Mrs. Cedric N. Walter; Mr. John Wareing, Hon. Secretary, North Lancashire District Society; Mr. R. T. Warwick, Member of Council of the Society, and Mrs. R. T. Warwick; Mr. and Mrs. G. E. Watkins; Mr. Arthur W. Watson; Miss Eleanor M. Watson; Mrs. Webb; Mr. N. L. West; Miss Edith White; Mr. and Mrs. H. F. White; Mr. and Mrs. E. J. Williams.

EXAMINATION RESULTS IN SOUTH AFRICA

May, 1939

Passed in Final

Alphabetical Order

BATTESON, COURTNEY SPENCER, Clerk to H. E. Mattinson & Partners, Durban.
BLAKER, CHARLES BERNARD, Clerk to Price, Waterhouse, Peat & Co., Johannesburg.
HEWITT, THOMAS EAGER, formerly Clerk to Charles Hewitt & Co., Johannesburg.
HOGG, JOHN SCRYMGEOUR, Clerk to J. E. P. Close & Co., Cape Town.
LAMBSON, REGINALD JOSEPH, formerly Clerk to Gibson, Hyslop & Co., Cape Town.
LARMUTH, GEORGE HAMILTON, Clerk to J. E. P. Close & Co., Cape Town.
LUMB, KEITH SEYMOUR BARRON, Clerk to Hands & Shore, Cape Town.
NEWTON, JOHN CECIL, Clerk to G. W. Warner, Bloemfontein.
PEARCE, LAURENCE ORMSBY, Clerk to Goldby, Panchaud & Webber, Johannesburg.
WARDEN, JAMES STEWART, Clerk to Dreyer & Dreyer, Johannesburg.
WOODS, DOUGLAS EDWARD, Clerk to Stewart, Steyn & Co., Johannesburg.

(15 Candidates failed to satisfy the Examiners.)

Passed in Intermediate

Alphabetical Order

EGELAND, JOHN JACOB, Clerk to W. Murray Smith & Berend, Durban.
STEWART, SAMUEL, formerly Clerk to Price, Waterhouse, Peat & Co., Johannesburg.
TROLLIP, GEOFFREY FRANCIS WELLESLEY, formerly Clerk to Gurney, Notcutt, & Fisher, Cape Town.

DISTRICT SOCIETIES AND BRANCHES

NORTH LANCASHIRE

Annual Report

The Committee has pleasure in submitting the report for the year ended March 31, 1939.

MEMBERSHIP

The membership is 235, including 39 Fellows, 113 Associates, and 83 Students.

LECTURES

Six lectures were given during the year.

It is disappointing to record that the average attendance has declined.

EXAMINATIONS

Congratulations are extended to the students who were successful at the parent Society's examinations in May and November, 1938. Five passed the Intermediate and four the Final.

LIBRARY

It is regretted that members do not make greater use of the Library. Books may be borrowed on application to the Hon. Secretary and will be forwarded post free to out-of-town members.

A full catalogue of the Library at Incorporated Accountants' Hall is now in the press and will be available shortly. Copies will be sent free of charge to members and students on application.

PARENT SOCIETY

The Committee desires to record its thanks to the President, Council and officers of the parent Society for their continued encouragement and assistance.

The Society was represented at the District Societies' Conference held in May, 1938, in London, by the Hon. Secretary (Mr. John Wareing).

Reference should be made to the successful gathering at Guildhall, London, in March last, when the principal guest was His Royal Highness The Duke of Kent. The North Lancashire Society was represented by the Honorary Secretary.

NORTH STAFFORDSHIRE

Annual Report

The Committee has pleasure in submitting its annual report for the year ended March 31 last.

MEMBERSHIP

The membership of the District Society on March 31, 1939, was 119 (including 13 Fellows, 50 Associates and 56 Students).

REVIEW OF THE SESSION'S WORK

During the past Session there have been seven lectures, which have covered many subjects included in the Society's examination syllabus, and they have been fairly well attended.

There has been no District Society dinner during the past year, but the parent Society's dinner at Guildhall, London, on March 16, 1939, was attended by the President (Mr. J. Paterson Brodie) and the Hon. Secretary.

Five students were successful in the examinations of the Society, three in the Final and two in the

Intermediate, and the Committee congratulates them.

The President (Mr. R. M. Chapman) and the Hon. Secretary attended the District Societies' Conference in May last year, and a few of the annual functions of the District Societies.

SOUTH AFRICAN (EASTERN BRANCH)

Annual Meeting

The eleventh annual meeting of the South African (Eastern) Branch of the Society of Incorporated Accountants was held at Durban on July 7.

The chairman, Mr. N. E. O. Jones, referred to the death of the late Honorary Secretary of the Branch, Mr. W. R. Fraser. The meeting passed unanimously a resolution of appreciation of Mr. Fraser's services, and of sympathy with his widow and relatives.

Mr. Jones stressed the unsatisfactory results of the examinations held at Durban. He urged members to impress on their clerks the advantages of serving articles and qualifying for membership of the Society of Incorporated Accountants as well as one of the South African societies.

The report and accounts were unanimously adopted. Mr. F. E. Osborn was re-elected auditor.

As there were no other nominations, the retiring members of the Committee were declared re-elected, and Mr. E. B. Perry was elected to the vacancy caused by the transfer of Mr. P. M. George to Johannesburg.

Senator the Hon. W. J. O'Brien spoke on the Accountancy Bill. He felt that the Bill in its present form protected as far as possible the interests of Incorporated Accountants. If any further amendments were suggested at this stage the main objects of the Bill might be jeopardised.

Mr. R. Abrahams moved a recommendation to the Committee to appoint a Sub-Committee to investigate and if thought fit to report to members upon the salient features of the new Companies Amendment Act.

Votes of thanks were accorded to Messrs. Murray Smith & Berenth for the use of their board-room throughout the year, and to Mr. N. E. O. Jones for his services as chairman.

At a Committee meeting held immediately after the annual meeting, Mr. G. L. Horne was unanimously elected chairman of the Branch for the year 1939-40.

SOUTH OF ENGLAND

Annual Report

The Committee has pleasure in submitting the report on the work of the Society for the year ended March 31, 1939.

MEMBERSHIP

The total membership is now 288, made up of 144 Fellows and Associates, and 144 Students.

LECTURE MEETINGS

During the past winter session eight lecture meetings have been held at Southampton and eight at Bournemouth. The Committee has been disturbed at the meagre support accorded. A questionnaire has been issued to all members of the Students' section for the purpose of ascertaining the causes for this, and the replies received are being carefully reviewed with a view to eliminating difficulties and objections as far as possible.

EXAMINATIONS

Cordial congratulations are extended to those who were successful at the Society's 1938 examinations. Fourteen passed the Final examination (one with Honours) and eleven the Intermediate.

The Committee has considered it desirable that the Society should have a badge of office for the use of the President, and the provision of this is being proceeded with.

In accordance with the reference from the last annual meeting, the Committee has carefully considered the desirability of revising the rules of the Society, and has concluded that such a course is unnecessary, the existing rules providing all that is required.

SWANSEA AND SOUTH WALES

Annual Report

The District Committee has pleasure in presenting its report for the year ended March 31, 1939.

MEMBERSHIP

On March 31, 1939, there were 73 members and 63 students.

PRESIDENT

Following a discussion at the last Conference of District Societies' Representatives, the Committee unanimously re-elected Mr. W. H. Ashmole, M.B.E., J.P., F.S.A.A., as President for the year 1938-39, and suggested that all future appointments of President shall be for two years instead of one year.

ASSISTANT HONORARY SECRETARY

The Committee regrets that Mr. Glyn Morris, A.S.A.A., has been compelled to resign his office as Assistant Hon. Secretary, because of continued ill-health. Mr. G. M. Squire was elected Assistant Hon. Secretary in place of Mr. Morris.

LECTURES

Twelve meetings have been held for lectures and discussions.

The Committee records its thanks to the gentlemen who have lectured during the session and to all who contributed to the proceedings.

EXAMINATIONS

Congratulations are extended to the successful candidates at the examinations of the Society. Six passed the Final (one with Honours) and two the Intermediate.

OBITUARY

The Committee regrets to report the death of Mr. F. Jennings and Mr. H. C. Marcroft. Mr. Jennings had been a member of the District Committee since the inception of this District Society.

GUILDHALL DINNER

The parent Society held a dinner at Guildhall, London, in March last, when H.R.H. The Duke of Kent proposed the toast of the Society. The President and Secretary represented this District Society.

PERSONAL NOTES

Mr. P. B. Crowther, Incorporated Accountant, advises that he commenced public practice at 134, Wigmore Street, London, W., on April 1 last.

Mr. Denis Thorley, Incorporated Accountant, has commenced public practice at Skillings Lane, Brough, Yorks.

Mr. D. R. Jain, A.C.A., A.S.A.A., has commenced public practice at 30, Lakshmi Mansions, The Mall, Lahore.

Mr. R. L. Crosoer, Incorporated Accountant, has commenced public practice at Goodricke's Buildings, Masonic Grove, Durban.

Mr. B. Baker, Incorporated Accountant, has been appointed a director of the Walsall Mutual Benefit Building Society.

REMOVALS

Messrs. Aucker, Horsfield & Longbottom, Incorporated Accountants, have removed their offices to Insurance Chambers, 24, Forster Square, Bradford. Messrs. R. F. Sheppard & Co., Chartered Accountants, announce a change of address to 55-56, Chancery Lane, London, W.C.2.

CHANGES

The firm of Cook, Mahony & Co. Incorporated Accountants, has been dissolved. Mr. Cook has removed to 4-5, Bond Court, Walbrook, E.C., where he is practising under the style of "J. A. Cook & Co." Mr. Mahony is continuing to practise at 3, Salter's Hall Court, Cannon Street, E.C.4, under the style of "Daniel Mahony."

Mr. R. H. B. Heap, Incorporated Accountant, has taken into partnership his son, Mr. W. Allan Heap, B.A., LL.B., A.C.A. The practice will be continued in future at Royal Chambers, Upper Piccadilly, Bradford, under the style of R. H. B. Heap & Son.

Messrs. Alex E. Picot & Co., Incorporated Accountants, Jersey and Guernsey, have admitted into partnership Mr. L. A. Picot, A.S.A.A., as from June 1, 1939.

Mr. J. R. Atkins, Incorporated Accountant, has taken into partnership Mr. Arthur Wood, Incorporated Accountant. They will practice under the style of "J. R. Atkins & Co." at 14, St. Ann's Square, Manchester, and 76, Derby Street, Macclesfield.

OBITUARY

Stanley Cuthbert

We regret to have to record that Lieutenant-Colonel Stanley Cuthbert, who for many years practised as an Incorporated Accountant in Edinburgh, died on July 20.

Col. Cuthbert had a distinguished military career. Joining the Queen's Edinburgh Brigade in 1883 as a private, he passed through all the ranks until he was gazetted Lieutenant-Colonel in 1906. He was one of the first officers to pass the extra-proficiency examination entitling him to the letter "Q" in the Army List, and at the examination in tactics (field officers' paper) he scored the highest marks of any officer of the Regular or Auxiliary Forces. Col. Cuthbert was also distinguished as a marksman, taking part himself and training and organising teams in all the national competitions. During the war he practically raised and trained the whole company of the Scottish Sharpshooters Battalion ("The White Company"), as well as providing drafts for other companies of the battalion. His work in this respect was outstanding.

For several years he was a member of the Council of the Scottish branch of the Society. He was 75 years of age and for some years had been in retirement.

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